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14 **UNITED STATES DISTRICT COURT**
15 **DISTRICT OF NEVADA**

16
17 IN RE MEDBOX, INC. DERIVATIVE
18 LITIGATION

19 -----
This document relates to: ALL ACTIONS
20 -----

Base File No. 3:15-cv-00147-LRH-WGC

**VERIFIED CONSOLIDATED
SHAREHOLDER DERIVATIVE
COMPLAINT FOR BREACH OF
FIDUCIARY DUTY AND ABUSE OF
CONTROL**

DEMAND FOR JURY TRIAL

21
22
23 Plaintiffs Robert J. Calabrese (“Calabrese”), Tyler Gray (“Gray”) and Giuseppe Modica
24 (“Modica”), by and through their undersigned attorneys, bring this consolidated derivative
25 complaint (the “Complaint”) for the benefit of nominal defendant, Medbox, Inc. (“Medbox” or the
26 “Company”), against certain members of its Board of Directors (the “Board”) and certain of its
27 executive officers seeking to remedy defendants’ breaches of fiduciary duties and abuse of control.
28

CONSOLIDATED SHAREHOLDER DERIVATIVE COMPLAINT FOR BREACH OF FIDUCIARY DUTY AND
ABUSE OF CONTROL

NATURE AND SUMMARY OF THE ACTION

1
2 1. Medbox provides software and consulting services to medical marijuana
3 dispensaries and sells a patented vending machine designed to dispense medical marijuana. The
4 Company was founded in 2010 by defendant Pejman Vincent Mehdizadeh (“Mehdizadeh”). From
5 the founding of Medbox until March 2015, defendant Mehdizadeh was the majority shareholder of
6 Medbox and controlled the business activities of Medbox.

7 2. Completely disregarding his fiduciary responsibilities as a majority shareholder,
8 officer, and director of a publicly traded company, defendant Mehdizadeh has used and abused
9 Medbox as if it were his private play toy and failed to operate the business pursuant to the
10 requirements of a publicly traded Company. In his own words, Mehdizadeh “was involved in
11 almost every decision the company made.”

12 3. These decisions comprise a series of unacceptable behavior for a corporate
13 fiduciary. For example, in 2012 Mehdizadeh decided to compensate himself over \$410,706 at a
14 time when his only role was as a “consultant.” At the same time, the Company’s *net income* for
15 2012 was only \$327,853 and the Company’s Chief Executive Officer (“CEO”) was earning only
16 \$65,000, or approximately one-seventh of the compensation earned by consultant Mehdizadeh.

17 4. Defendant Mehdizadeh’s decisions also include acts that bespeak of moral
18 turpitude and a desire to deceive investors, such as: (a) hiring an “independent” auditor that has
19 been censured by the Public Accounting Oversight Board and is currently the subject, along with
20 the Company, of a U.S. Department of Justice (“DOJ”) grand jury investigation; (b) attempting to
21 conceal from investors that he is a convicted felon due to actions he and his father took pretending
22 to be attorneys and stealing over \$450,000 from people in need; (c) publicly denying that the
23 Company was under investigation by the SEC when in fact the Company *was and is* under
24 investigation by the SEC; and (d) issuing false and misleading press releases without authorization
25 under the Medbox name and logo at a time when he was neither an officer nor a director of the
26 Company.

27 5. Due to defendant Mehdizadeh’s direct and personal involvement in Medbox, he
28 knew that since at least the beginning of 2013 the Company’s financial statements were

1 inaccurate. These inaccuracies were so pervasive that they include, for example: (a) the issuance
 2 of press releases in 2013 claiming the Company had “booked” \$2 million in revenue in the first
 3 quarter of 2013 when it had not; (b) the issuance of at least two sets of distinct financial statements
 4 reporting different results for the third quarter of 2013; and (c) the December 30, 2014
 5 announcement that Medbox would be forced to restate its financial statements for at least the full
 6 year of 2013 and the first three quarters of 2014 due to material errors, and potentially financial
 7 statements from 2012 as well.

8 6. Compliant in these fiduciary breaches were the directors charged with leading the
 9 Company. Between 2013 and commencement of this action, there were four distinct iterations of
 10 Medbox’s Board of Directors. Defendant Mehdizadeh used his position as a majority shareholder
 11 to appoint and terminate directors at will and has completely dominated Medbox’s Board and the
 12 corporation for his own benefit. This tactic has resulted in a rarely-seen level of Board turnover
 13 summarized as follows:

<u>Board 1</u> (2013 – April 2014) ¹	<u>Board 2</u> (April 2014 – August 2014)	<u>Board 3</u> (August 2014 – October 2014)	<u>Demand Board</u> ² (October 2014 – July 2015)
Mehdizadeh			
Bedrick ³	Bedrick		
	Feinstein	Feinstein	
	Lowe	Lowe	Lowe
	Siegel	Siegel	Siegel
		Marsala	Marsala
			Love

20 7. Although the aforementioned breaches of fiduciary duties are sufficient to state a
 21 claim without more, the following recent events specifically precipitated the filing of these
 22 consolidated actions. The Company disclosed on October 31, 2014 that: (a) a federal grand jury
 23 was investigating matters pertaining to Medbox and had issued a subpoena to the Company’s
 24 public accountant; and (b) a whistleblower had contacted the U.S. Securities and Exchange

25 ¹ Dates are approximate since not all directors of a particular Board were appointed on the
 26 same day.

27 ² For the purposes of demand futility, the relevant Board is the Demand Board.

28 ³ Defendants Bedrick, Feinstein, Lowe, Siegel, Marsala, and Love are defined herein.

1 Commission (the “SEC”) alleging that defendant Mehdizadeh had engaged in insider trading and
2 securities fraud. Incredibly, the majority of the Demand Board knew about the grand jury
3 investigation since August 2014, but concealed its existence from shareholders and took no action
4 for three months. Instead, these defendants used the three months from August to October 2014 to
5 sell hundreds of thousands of dollars of Medbox stock.

6 8. Beginning on November 3, 2014, defendant Mehdizadeh issued a series of press
7 releases denying that the Company was under investigation by the SEC. This forced the Company
8 to file a Form 8-K on November 7, 2014 stating that Mehdizadeh’s November 3 press release was
9 unauthorized and directing investors to rely on the original October 31, 2014 disclosure regarding
10 the SEC whistleblower and grand jury investigation. On November 12, 2014, the Company filed a
11 Form 10-Q with the SEC which, among other things, confirmed that the SEC “is conducting an
12 investigation pertaining to the Company and issued a subpoena.” Defendant Mehdizadeh’s
13 commitment to concealing the truth about Medbox and his activities did not stop at issuing false
14 press releases, however.

15 9. On December 22, 2014, apparently worried his wrongdoing was about to be
16 exposed, defendant Mehdizadeh issued a press release defending the Company’s revenue
17 recognition and downplaying it as a “difference of opinion.” As described herein, the Company
18 subsequently acknowledged that this press release was false and/or misleading.

19 10. On March 9, 2015, the Company disclosed that it had completed its financial
20 review and stated that it planned to file amended and restated Forms: (a) 10-K containing financial
21 statements for the years 2012 and 2013; and (b) 10-Q for the first, second, and third quarters of
22 2014. As a result of the misleading accounting, Medbox overstated its revenue by over \$1.3
23 million during 2012, and by \$3 million during 2013. In both cases the overstatement was greater
24 than the Company’s total restated revenue during those periods.

25 11. Demonstrating a stunning lack of corporate governance, defendants failed to meet
26 even the rudimentary requirement to have an independent Audit Committee. From the beginning
27 of 2013 until August 2014, upon information and belief, Medbox’s Board never had an Audit
28 Committee. The Board never disclosed the existence of an Audit Committee, its membership, or

1 an Audit Committee charter. When the Company finally publicly disclosed an Audit Committee
2 charter adopted in August 2014 on its website, the charter required the Committee be comprised of
3 three independent directors. As of August 2014, Medbox had never – during its entire corporate
4 history – had three outside directors, let alone three legitimately independent ones, on the Board at
5 once. Nor did it in August 2014. Finally, in October 2014, three outside directors were on the
6 Board at once, making it possible for the first time to convene an Audit Committee. However, the
7 Company *still* does not have a properly comprised, functioning Audit Committee. Even now, the
8 Audit Committee of Medbox's Board only has two members in contravention of its own charter.

9 12. During the saga of wrongdoing detailed herein, Medbox's stock price collapsed
10 from approximately \$19.00 per share in June 2014 to the current trading price of \$0.06 per share.
11 This decline represents a loss of well over \$600 million in market capitalization.

12 13. Plaintiffs made no pre-suit demand on the Board because any such demand would
13 have been a futile and useless act. The Demand Board of Medbox is comprised of defendants
14 Siegel, Lowe, Marsala, and Love. These defendants have admitted in court filings that defendant
15 Mehdizadeh has committed a wide range of wrongdoing at Medbox and that the Company suffers
16 from pervasive corporate governance deficiencies. A majority of the Demand Board, defendants
17 Siegel, Lowe, and Marsala, were on Medbox's Board in August 2014 when they were alerted to
18 the grand jury investigation and SEC whistleblower but they declined to take any action or
19 disclose same for approximately three months while they sold hundreds of thousands of dollars in
20 Medbox stock at inflated prices. The Demand Board has not sued defendant Mehdizadeh to
21 recover the funds that he has stolen or wasted from Company's coffers, nor has the Demand Board
22 enacted the necessary corporate governance enhancements to ensure Medbox is run like a
23 legitimate enterprise.

24 14. Each of defendants has breached his or her fiduciary duties in connection with the
25 allegations herein and the Company has been seriously harmed by these breaches of fiduciary
26 duties.

27 JURISDICTION AND VENUE

1 Medbox's Board when both of the consolidated actions were filed. When defendant Marsala
2 resigned, the Company disclosed that he would be entitled to receive \$500,000 in severance pay
3 after less than one year of service. Defendant Marsala was a member of Board 3 and the Demand
4 Board. Upon information and belief, defendant Marsala is a citizen of California.

5 22. J. Mitchell Lowe ("Lowe") has served as a director of Medbox since March 2014.
6 Defendant Lowe was a member of Boards 2 and 3, and the Demand Board. Defendant Lowe is
7 the Chairperson of the Compensation Committee and a member of the Governance and
8 Nominating Committee. Upon information and belief, defendant Lowe is a citizen of California.

9 23. Ned Siegel ("Siegel") has served as a director of Medbox since April 2014.
10 Defendant Siegel was a member of Boards 2 and 3, and Chairman of the Demand Board. At
11 relevant times, defendant Siegel was also a member of the Audit Committee, the Compensation
12 Committee, and the Governance and Nominating Committee. Upon information and belief,
13 defendant Siegel is a citizen of Florida.

14 24. Jennifer S. Love ("Love") has served as a director of Medbox since October 22,
15 2014 and was a member of the Demand Board. Defendant Love is the Chairperson of the Audit
16 Committee. Upon information and belief, defendant Love is a citizen of Missouri.

17 Past Directors and Officers

18 25. Defendant Mehdizadeh was previously CEO, is the founder of Medbox, and was
19 the majority shareholder of Medbox until March 2015. Defendant Mehdizadeh served as a senior
20 consultant to the Company from December 2012 until May 2013, when he was appointed as the
21 Company's Chief Operating Officer ("COO") and Chairman of the Board of Directors. On April
22 10, 2014, Mehdizadeh resigned as COO and a director and became a "Senior Strategist." On
23 October 13, 2014, Mehdizadeh resigned as Senior Strategist of the Company but continued to
24 serve as a consultant to the Company. On January 9, 2015, entities controlled by defendant
25 Mehdizadeh illegally executed a written consent ("Written Consent") installing him once again as
26 Chairman of the Board effective January 29, 2015. The Written Consent was later withdrawn.
27 Defendant Mehdizadeh was a member of Board 1. Upon information and belief, defendant
28 Mehdizadeh is a citizen of California.

1 26. Bruce Bedrick (“Bedrick”) served as the Company’s CEO from December 2011
2 until July 23, 2014. Defendant Bedrick served as a director of Medbox from December 2011 until
3 August 18, 2014, as a member of Boards 1 and 2. Although Medbox’s public filings routinely
4 referred to defendant Bedrick as a “physician” and stated he possessed medical expertise relevant
5 to the Company’s business, in fact defendant Bedrick is a chiropractor, not a physician, and does
6 not hold an M.D. Upon information and belief, defendant Bedrick is a citizen of Arizona.

7 27. Matthew Feinstein (“Feinstein”) was to be appointed director effective January 29,
8 2015 by the Mehdizadeh controlled entities via the illegal and subsequently withdrawn January 9,
9 2015 Written Consent. Defendant Feinstein worked as a consultant for Medbox beginning in June
10 2013 and became a Vice President in February 2014. Feinstein previously served as a director of
11 the Company from April 2014 until October 2014. Defendant Feinstein was a member of Boards
12 2 and 3. Upon information and belief, defendant Feinstein is a citizen of California.

13 28. Thomas Iwanski (“Iwanski”) served as the Company’s Chief Financial Officer
14 (“CFO”) from February 2014 until he resigned on October 16, 2014. Defendant Iwanski initially
15 joined Medbox in April 2013 as an accounting consultant. Upon information and belief,
16 defendant Iwanski is a citizen of California.

17 29. C. Douglas Mitchell (“Mitchell”) became Medbox’s CFO on October 21, 2014 and
18 continues to serve in that role. Upon information and belief, defendant Mitchell is a citizen of
19 California.

20 **DEFENDANTS’ DUTIES**

21 30. By reason of their positions as officers, directors, and/or fiduciaries of Medbox and
22 because of their ability to control the business and corporate affairs of Medbox, defendants owed
23 Medbox and its shareholders fiduciary obligations of good faith, loyalty, and candor, and were and
24 are required to use their utmost ability to control and manage Medbox in a fair, just, honest, and
25 equitable manner. Defendants were and are required to act in furtherance of the best interests of
26 Medbox and its shareholders so as to benefit all shareholders equally and not in furtherance of
27 their personal interest or benefit. Each director and officer of the Company owes to Medbox and
28 its shareholders the fiduciary duty to exercise good faith and diligence in the administration of the

1 affairs of the Company and in the use and preservation of its property and assets, and the highest
2 obligations of fair dealing.

3 31. Defendants, because of their positions of control and authority as directors and/or
4 officers of Medbox, were able to and did, directly and/or indirectly, exercise control over the
5 wrongful acts complained of herein, as well as the contents of the various public statements issued
6 by the Company. Because of their advisory, executive, managerial, and directorial positions with
7 Medbox, each of the defendants had knowledge of material non-public information regarding the
8 Company.

9 32. To discharge their duties, the officers and directors of Medbox were required to
10 exercise reasonable and prudent supervision over the management, policies, practices and controls
11 of the Company. By virtue of such duties, the officers and directors of Medbox were required to,
12 among other things:

- 13 a. Exercise good faith to ensure that the affairs of the Company were conducted in an
14 efficient, business-like manner so as to make it possible to provide the highest
15 quality performance of their business;
- 16 b. Exercise good faith to ensure that the Company was operated in a diligent, honest
17 and prudent manner and complied with all applicable federal and state laws, rules,
18 regulations and requirements, and all contractual obligations, including acting only
19 within the scope of its legal authority;
- 20 c. Exercise good faith to ensure that the Company's communications with the
21 public and with shareholders are made with due candor in a timely and
22 complete fashion; and
- 23 d. When put on notice of problems with the Company's business practices and
24 operations, exercise good faith in taking appropriate action to correct the
25 misconduct and prevent its recurrence.

26 33. Defendants Siegel and Lowe, as members of the Corporate Governance and
27 Nominating Committee, were bound by that committee's charter which states that their duties
28 included: (a) identifying the qualifications and skills which should be present in the Board "and

1 identify gaps between the current and desired skill set, qualifications and other criteria”; (b)
2 formulate and recommend a policy regarding the qualifications, skills and other attributes the
3 Company seeks in nominees for election to the Board; (c) recommend appointments to committees
4 of the Board and chairpersons for such committees; (d) review of appropriateness of Board
5 committees and the need for additional committees; (e) review the size and composition of the
6 Board and recommend any changes it deems advisable; (f) annually review the status of each
7 member of the Board as independent or not independent and submit a report on the subject to the
8 Board; (g) advise the Board regarding the appropriate board leadership structure for the Company;
9 (h) review and assess corporate governance policies for the Company, including the Company’s
10 Code of Ethics and recommend any proposed changes to the Board for approval; and (i) be
11 available to the Board and members of the Company’s senior management team to consult with
12 and to resolve reported violations or instances of non-compliance with the Company’s Code of
13 Ethics.

14 34. Defendants Siegel and Love, as members of the Audit Committee, were bound by
15 that committee’s charter which states that the committee must be comprised of three independent
16 directors and that their duties included, among other things: (a) review on a continuing basis the
17 adequacy of the Company’s financial reporting; (b) review any significant disagreement among
18 management and the independent auditors regarding the Company’s financial statements; (c)
19 review of the adequacy of the Company’s disclosure controls and procedures; and (d) review the
20 extent to which improvements to the Company’s internal controls have been implemented.

21 35. Defendants Siegel and Lowe, as members of the Compensation Committee, were
22 bound by that committee’s charter which states that their duties included, among other things: (a)
23 review of the Company’s compensation policies; (b) annually review and evaluate the CEO’s
24 performance relative to corporate goals; (c) administer and implement the Company’s incentive
25 compensation plan; (d) establish performance objections; (e) imposing limitations, restrictions,
26 and conditions upon any grant or award; and (f) advise on the setting of compensation for officers.

BACKGROUND

Medbox Corporate History

36. Medbox, through its subsidiaries, provides storage and dispensing systems to the medical and retail industries, upon information and belief, exclusively related to medical marijuana. The Company offers Medbox, a marijuana dispensing machine that dispenses marijuana-derived medications to individuals based on biometric identification. Its products also include Safe Access Storage Lockers; Medbox medicine storage machines; and Lockbox Rx, a storage/retrieval system that is used for prescription medication, over-the-counter medicines, and other pharmacy products. In addition, the Company provides Sample-Safe, a wall-mounted unit for use in doctors' offices; sells the point-of-sale system that includes a monitor, keyboard, credit card reader, and computer with interface; and offers Medbox OTC machines, a non-biometric machine for over-the-counter items, and various vaporizer and accessory products, such as miVape.

37. The predecessor entity to Medbox was incorporated in Nevada as Rabatco, Inc. While it was originally described as a mining company, Robatco was inactive from 1982 to 1998, and re-emerged in 1998 as a company seeking to "acquire computer related technology."

38. In 2000, the Company's name was changed to MindfulEye, Inc. ("MindfulEye"). MindfulEye's business was operating self-serve kiosks where consumers could download movies onto a flash drive. According to a MindfulEye filing on the OTC website, the movies sold at the Company's kiosks were "adult" films.

39. MindfulEye never reported a profitable fiscal year, and by July 2004 it had terminated its duty to file reports and schedules with the SEC. It continued to be traded as a public company on OTC Markets, but its corporate charter lapsed. On June 21, 2005, an attorney named Peter E. Berney ("Berney") reinstated the corporate charter and took control of the company. According to posts online, Berney, although an attorney, has a criminal record of securities fraud, became widely known for "box jobs," in which he "would create fraudulent companies, often by hijacking dormant shells, and install nominee officers who would put much

1 of the companies' stock into the hands of promoters. Once the stage was set, a pump and dump
2 operation would follow."

3 40. Berney sold the MindfulEye shell corporation to a middleman, who then sold it in
4 2010 to Shannon Illingworth, who is the CEO of AVT, Inc., the company that makes Medbox's
5 marijuana vending machines. MindfulEye's revenues for 2010 were \$0 and its cash on hand on
6 March 31, 2011 was \$23,689. Even though they had almost no value, shares of MindfulEye
7 continued to be tradable over the counter.

8 41. On August 30, 2011, in contemplation of defendant Mehdizadeh's acquisition of
9 the Company, MindfulEye's name was changed to Medbox. On November 25, 2011, defendant
10 Mehdizadeh purchased 50% of the outstanding common stock of the Company, immediately after
11 his tax debts had been discharged in bankruptcy. Thereafter, defendant Mehdizadeh, through
12 PVMI, Inc. ("PVMI"), an entity he wholly owned, acquired all of the outstanding shares of the
13 Company during 2012 in exchange for 10 million shares of common and 3 million shares of
14 preferred stock in the new company.

15 42. Defendant Mehdizadeh brought in defendant Bedrick to run Medbox as CEO.
16 According to an article entitled "A Convicted Thief And A Chiropractor Claim Their Pot
17 Company Isn't A One-Hit Wonder," published by the Phoenix New Times, Defendant Bedrick,
18 was arrested in New Mexico and was indicted in 1992 by the federal government for possession of
19 marijuana with intent to sell. Defendant Bedrick ultimately avoided prosecution and the
20 indictment was dismissed following a court's ruling suppressing the evidence as illegally obtained.
21 Like Mehdizadeh, defendant Bedrick has also had issues with the IRS, with a federal tax lien
22 being filed against him in 2008 for approximately \$88,000 in unpaid taxes from 2002 and 2004 .

23 SUBSTANTIVE ALLEGATIONS

24 43. On April 2, 2013, the Company issued a press release titled "Medbox Completes
25 Financial Audit," which states in part:

26 HOLLYWOOD, Calif., April 2, 2013 /PRNewswire/ -- Medbox, Inc. (OTC
27 Markets: MDBX) (www.medboxinc.com), announced it has cleared a financial
28 audit of its prior 2 years of operations. Q Accountancy Corporation of Irvine,
California headed up the audit as a public company accountancy and oversight

1 board (PCAOB) certified firm that specializes in complex audits of this size and
2 scope.

3 * * *

4 Medbox reports that all \$673,000 in deferred revenue was paid in Q1 2013 and as a
5 result added to that quarter's revenue figures *making Q1 2013 revenue well in*
excess of \$2 million - a company record.

6 * * *

7 "We are absolutely thrilled that we have cleared this proverbial hurdle in our
8 company's history," stated Dr. Bruce Bedrick, CEO of Medbox, Inc. "We
9 anticipate filing our Form 10 by Friday and 60 days thereafter the filing shall be
10 deemed effective. We want to thank all of our supporters that helped us in
11 becoming a viable public company."

(Emphasis added.)

12 44. Unfortunately for Medbox and its shareholders, although the engagement of a
13 public accounting firm should have led to more accurate financial reporting and transparency, this
14 was not to be. When defendant Mehdizadeh, who at the time was Medbox's "Senior Consultant
15 and Founder" and defendant Bedrick, then Medbox's CEO, decided to engage Q Accountancy
16 Corporation ("Q Accountancy") they did so knowing that the accountant would be no more than a
17 rubber stamp for their financial manipulations and untruthful disclosures. About six months
18 earlier, on September 27, 2012, the Public Company Accounting Oversight Board had issued a
19 report after an inspection of Q Accountancy.⁴ The report, which is publicly available, provides a
20 grim foreshadowing of the situation at Medbox:

21 The inspection team identified what it considered to be *audit deficiencies*. Those
22 deficiencies included *a failure by the Firm to identify or appropriately address an*
23 *error in the issuer's application of GAAP that appeared likely to be material to the*
issuer's financial statements. In addition, the deficiencies included failures by the
Firm to perform, or to perform sufficiently, certain necessary audit procedures.

24 * * *

25
26
27 ⁴ Also in 2012, the SEC sued the founder of Q Accountancy, Tim Quintanilla
28 ("Quintanilla"), for issuing misleading audits based on "reckless and deficient work." In 2013,
Quintanilla was named as a defendants in a federal securities fraud class action. Both the SEC
action and the securities fraud action remain pending.

1 The deficiencies identified in both audits reviewed included deficiencies of such
2 significance that it appeared to the inspection team that the Firm, at the time it
3 issued its audit report, had not obtained sufficient competent evidential matter to
support its opinion on the issuer's financial statements.

4 * * *

5 On the basis of the information reported by the inspection team, including the audit
6 performance deficiencies [described previously in the report], *the Board has*
7 *concerns that the Firm's system of quality controls fails to provide such reasonable*
8 *assurance in at least the following respects....* The Firm's system of quality control
appears not to provide sufficient assurance that the Firm will conduct all testing
appropriate to a particular audit.

9 (Emphasis added.)

10 45. A press release issued by Medbox the next day, on April 3, 2013, tacitly
11 acknowledged that Q Accountancy was not the quality independent auditor that the Company and
12 its shareholders needed. The release states in part:

13 While Q Accountancy Corporation's audit delivered an acceptable set of financial
14 statements, management believes a firm more focused and supportive of emerging
15 microcap public companies would be best suited for long term operations.
16 *Management believes it is in the best interest of the shareholders and the company,*
as a whole, to make this change, although it will delay the filing of its Form 10 to
the latter part of April.

17 "The point is getting the job done with the right people. We have identified a firm
18 and we look forward to announcing their engagement shortly," stated Dr. Bruce
19 Bedrick, CEO of Medbox, Inc. "Corporate governance is paramount and the
company will do what is needed for the Form 10 to be viewed as favorably as
possible by the SEC."

20 (Emphasis added.)
21

22 46. However, the promise to find a better qualified independent auditor, like many of
23 the promises made by defendants Mehdizadeh and Bedrick did not come to pass in time to avoid
24 serious harm to Medbox. Q Accountancy was only replaced in February 2015.

25 47. On April 10, 2013, the Company filed its first Form 10 with the SEC. The Form 10
26 contains financial statements for the full years ended December 31, 2012 and 2011, audited by Q
27 Accountancy. The Form 10 discloses that Medbox had eight full time employees, five part time
28

1 employees, and used six independent contractors. The Form 10 contains the following disclosure
2 about defendant Mehdizadeh:

3 Prior to founding MDS, Mr. Mehdizadeh was the Director of Client Relations for the
4 following law offices at various times from 2003 through 2008: Law Office of Donald J.
5 Townley; Law Offices of Frank E. Miller; Law Offices of Thomas R. Lee, Rexford Law
6 Group; and the Moheban Law Firm.

7 In 2007, Mr. Mehdizadeh was involved in the sale of his automobile to a private party. The
8 transaction terms were in dispute by the parties and Mr. Mehdizadeh pled no-contest to
9 using an access card (credit card) without the owner's consent. The matter was resolved
10 with Mr. Mehdizadeh receiving probation. Mehdizadeh is still currently on probation for
11 that offense.

12 48. On April 15, 2013, the Company issued a press release titled "Medbox Positions
13 Itself as the Leader on Wall Street in the Legalized Marijuana Industry," which repeats that the
14 Company had achieved \$2 million in quarterly revenue: "Medbox is proud to report that Q1 2013
15 was its highest revenue quarter in the company's history *at more than \$2 million booked as*
16 *revenue and over \$1.5 million booked as deferred revenue.*" (Emphasis added.)

17 49. On May 21, 2013, the Company filed its quarterly report for the period ended
18 March 31, 2013 with OTCmarkets.com and disclosed that in fact, its disclosures during April 2013
19 were untrue: it had not "booked" "more than \$2 million" in revenues and ultimately reported
20 revenue for the quarter of \$1,749,554.⁵

21 50. On June 4, 2013, the Company filed a letter with the SEC requesting withdrawal of
22 its Form 10 filed in April 2013 because Medbox would "not have time to complete certain
23 financial statement updates."

24 51. On June 21, 2013, the Los Angeles County District Attorney's Office issued a press
25 release titled "Father, Son Plead to Criminal Charges in \$450,000 Unauthorized Practice of Law
26 Case." The press release states in part:

27 ⁵ Another balance sheet attached to the Company's 2012 Annual Report and apparently
28 audited by Q Accountancy in January 2014 lists the Company's revenues for the quarter ended
March 31, 2013 as only \$1,245,522. See
<https://www.otciq.com/otciq/ajax/showFinancialReportById.pdf?id=115813>.

1 A father and son accused of stealing \$450,000 from more than a dozen victims by
2 offering unlicensed legal services pleaded no contest today, the Los Angeles
County District Attorney's Office announced.

3 Pejman [Vincent] Mehdizadeh, 35, of Los Angeles, told victims he was a licensed
4 attorney or that he worked with one and that he could provide a variety of services
– including obtaining green cards, loan modifications and divorces. His father,
5 Parvis Mehdizadeh, 78, of Calabasas, assisted. Between 2002 and 2009, they took
payments from 15 victims ranging from \$2,000 to \$200,000.

6 * * *

7 The younger Mehdizadeh pleaded no contest to two counts of felony grand theft
8 and admitted a special allegation of engaging in a pattern of related felony conduct
involving takings in excess of \$100,000. Los Angeles County Superior Court Judge
9 Robert J. Perry immediately sentenced him to four years in state prison, suspended,
and five years of formal probation.

10 Under the terms of a negotiated plea agreement, the son was ordered to pay back
11 \$450,000 in restitution on or by Oct. 21 or face prison time. To date, he has paid
\$370,000 in restitution.

12 52. On July 17, 2013, the Company filed with the SEC a prospectus on Form S-1 for an
13 initial public offering of 3 million shares of Medbox common stock at \$25 per share. Among
14 other things, the Form S-1 states “[w]e recognize revenue in accordance with ASC 605, *Revenue*
15 *Recognition*.” (Emphasis in original). The Form S-1 states Medbox only recognizes revenue
16 when all of the following have occurred: (a) persuasive evidence of an arrangement exists; (b) the
17 products and services have been provided to the customer; (c) the fee is fixed or determinable; and
18 (d) collectability is reasonably assured. Defendants Bedrick and Mehdizadeh were now listed as
19 CEO and a director, and COO and Chairman of the Board, respectively. Defendant Mehdizadeh's
20 salary as COO was disclosed as \$180,000 per year and defendant Bedrick's as CEO was \$65,000.
21 The Form S-1 states defendant Iwanski would become Medbox's CFO on September 1, 2013. As
22 with the previously filed Form 10, the Form S-1's disclosures regarding defendant Mehdizadeh
23 characterize his employment history as “Director of Client Relations” at various small law firms
24 and mentioned the 2007 dispute involving the sale of an automobile, but critically makes no
25 mention of defendant Mehdizadeh's recent felony conviction.

26 53. On September 30, 2013, the Southern Investigative Reporting Foundation (“SIRF”)
27 published an article about defendant Mehdizadeh titled “Tinkerer, Lawyer, Hustler, Lies: One
28 Man's Path to a Dope Fortune.” The article describes Mehdizadeh's past pattern of dishonesty:

CONSOLIDATED SHAREHOLDER DERIVATIVE COMPLAINT FOR BREACH OF FIDUCIARY DUTY AND
ABUSE OF CONTROL

1 In the spring of 2010, exasperated police detectives from all over Los Angeles
 2 began phoning the county's consumer affairs department to complain that an outfit
 3 calling itself the Active Lawyers Referral Service had misled its working-class
 4 customers from 2005 to 2008 by referring them to a law firm that billed them for
 5 work—but never finished the job. Their tales got positively woolly: Several
 6 claimed that Pejman Vincent Mehdizadeh, the founder of the referral service and
 7 the manager of the law firm, had posed as a lawyer and his father, Parviz, had given
 8 them legal advice as they sought work visas. (Pejman and Parviz use the names
 9 Vincent and Paul, respectively, for business.)

10 Three years later the consumer affairs unit, along with the Los Angeles County
 11 district attorney's office, sought to prosecute Vincent Mehdizadeh, who, after
 12 months of wrangling, pleaded no contest to various criminal charges. He consented
 13 to pay \$450,000 in restitution to his victims, thereby avoiding a four year sentence
 14 in a California state penitentiary. (His father, Parviz, pleaded no contest to one
 15 misdemeanor charge.)

16 * * *

17 A search of Los Angeles area criminal records databases shows that from 1997 to
 18 2007, Mehdizadeh was arrested or pleaded no contest for breaking and entering,
 19 solicitation, trespassing and credit card fraud. He declared bankruptcy in July
 20 2010, after landing up to his neck in back taxes owed to the Internal Revenue
 21 Service. Earlier this year, he wound up in the middle of the aforementioned
 22 consumer affairs investigation.

23 * * *

24 One area where there is little room for debate is Mehdizadeh's penchant for posing
 25 as a lawyer. After the raid on his marijuana dispensary he wrote in a signed
 26 December 2007 post on Weedtracker.com, a dormant pro-marijuana legalization
 27 website, "I have a law degree and made managing partner in my firm before the age
 28 of 26."

Moreover, in a testimonial for a Web marketing company, Mehdizadeh signed his
 name "Vincent Mehdizadeh, J.D." Short for juris doctor, J.D. signals an accredited
 law school awarded a degree.

54. The SIRQ article also describes a number of the accounting problems Medbox had
 already experienced in September 2013:

For its audits and filing preparation, Medbox turned to Irvine, Calif. based Q
 Accountancy. But Q Accountancy had a problematic history of its own with
 regulators and a legacy of troubled clients. In 2012, a congressionally appointed
 industry watchdog group—the Public Company Accounting Oversight Board—
 uncovered a sweeping array of deficiencies in Q Accountancy's auditing practices.
 And last November the SEC sued Q's founder, Timothy Quintanilla, for issuing
 misleading audits based on "reckless and deficient work."

* * *

How does a company that's trying to smarten its profile before selling more stock
 get into these jams? One way is to have no one in charge of financial oversight on
 a fulltime basis. Until Sept. 1, the company's finance chief, Leila Guieb, was

1 moonlighting part-time at Medbox while she worked as an employee at Toyota
2 Financial Services.

3 * * *

4 On March 8, a Medbox press release announced a \$6 million equity cash infusion,
5 with \$1 million already paid and \$5 million to arrive in May. Yet, there's no sign of
6 any of this in the company's SEC filings.

7 In April, Medbox filed a Form 10 as part of its effort to register its shares; the only
8 reference to stock sales was this line in a footnote at the very end: "During January
9 2013, the Company received a total of \$71,520 as payment for the sale of 16,000
10 shares of common stock during that period."

11 The S1 filed in July offered no clues about the whereabouts of the promised
12 millions.

13 (Citations omitted.)

14 55. On November 13, 2013, the Company filed an amended Form S-1 with the SEC
15 listing defendant Mehdizadeh's position as "Chief Operating Officer and Chairman of the Board,
16 acting principal financial officer." The amended Form S-1 for the first time discloses that
17 although defendant Mehdizadeh's salary was \$180,000, his total compensation for 2012 was
18 \$410,706. By contrast Medbox's net income for the full year 2012 was \$327,853. The next
19 highest paid officer was defendant Bedrick, the Company's CEO, whose total compensation was
20 \$65,000, or approximately 14% of the amount conferred on the Company's former "Senior
21 Consultant" and current "Chief Operating Officer and Chairman of the Board, acting principal
22 financial officer." Defendant Iwanski was now "expect[ed]" to become the Company's CFO "in
23 January 2014." The amended Form S-1 also expands – slightly – on Mehdizadeh's criminal
24 history:

25 During 2005-2008, Mr. Mehdizadeh was the non-attorney manager for a law firm.
26 In 2008 the supervising attorney whom clients had retained to handle their legal
27 matters retired and left clients without representation. The department of consumer
28 affairs of Los Angeles investigated the matter and decided to recommend
prosecution against Mr. Mehdizadeh and not Mr. Mehdizadeh's attorney employer.
After a 15 count criminal complaint was filed in 2010, in order to avoid a trial and
ongoing bad publicity, Mr. Mehdizadeh pled no-contest to two counts related to
theft since money was accepted by the attorney and work had not been completed
due to the attorney retiring. Mr. Mehdizadeh accepted the terms of the plea that
called for probation and that once Mehdizadeh's probation is complete, it was pre-
negotiated that the record of the incident be deleted. *Mr. Mehdizadeh maintains his
innocence and believes he was unfairly targeted.*

1 (Emphasis added.)

2 56. On November 19, 2013, defendants Mehdizadeh and Bedrick published Medbox's
3 third quarter 2013 quarterly report on OTCmarkets.com, a document which was not filed with the
4 SEC. The quarterly report states that: (a) as of September 30, 2013, the Company had total
5 current assets of \$3,276,992 and as of December 31, 2012, total current assets of \$3,456,802; and
6 (b) the Company's total assets were \$6,464,170 and \$3,512,670, for the third quarter of 2013 and
7 full year 2012, respectively. The report disclosed the following results of operations: (a) revenues
8 for the third quarter of \$2,079,454; (b) revenues for the nine months ended September 30, 2013 of
9 \$5,046,634; (c) net income for the quarter of \$258,945; and (d) net income for the nine months
10 ended September 30, 2013 of \$388,284. The November 19, 2013 quarterly report also refers to
11 the Company's 2012 full year results as "restated" without any explanation.

12 57. On November 20, 2013, defendants Mehdizadeh and Bedrick caused the Company
13 to issue a press release in connection with the foregoing third quarter results. The press release
14 states part:

15 Gross profit margin for the quarter was a healthy \$833 thousand and
16 EBITDA margin for the quarter was approximately 21%.

17 Income from operations through 3 quarters, before taxes, was a
18 healthy \$647 thousand.

19 *"We have had another record breaking quarter, which provides*
20 *further validation that our business plan is solid and our operating*
21 *strategy is sound,"* stated Dr. Bruce Bedrick, CEO of Medbox, Inc.
22 *"As we move forward, we will continue to seek out opportunities*
that provide growth for our company and added value for our
shareholders."

23 The company also announced that they have brought accounting
24 functions in-house to help expedite preparation of statements and
reports.

25 "As we continue to mature and transition to being a fully reporting
26 company, we need to be able to provide timely reports, status
27 updates, and filings," Bedrick commented. "We have assembled an
in-house team of accounting professionals. This team can devote
28 more time to work seamlessly with our outside auditing firm so
that we meet our deadlines and obligations, and provide the most

1 accurate and timely information to the SEC and the general
2 public.”

3 (Emphasis added).

4 58. On November 25, 2013, defendants Mehdizadeh and Bedrick caused the Company
5 to issue a press release entitled *Medbox Issues Status Update to Company Shareholders*, which
6 stated that “Medbox posted record revenue figures for YTD 2013, amassing more than \$5 million
7 in consulting and equipment sales revenue through 9 months.”

8 59. On December 19, 2013 the Company filed a letter with the SEC requesting the
9 withdrawal of the July 17, 2013 registration statement, this time because the Company “no longer
10 intends to raise capital by selling stock in a public offering in the immediate future.”

11 60. In January 2014, the Financial Industry Regulatory Authority (“FINRA”)
12 disseminated an advisory regarding risks related to investing in marijuana-related stocks. The
13 FINRA advisory stated:

14 Like many investment scams, pitches to invest in potentially fraudulent
15 marijuana-related companies may arrive in a variety of ways — faxes,
16 email or text message invitations to webinars, infomercials, tweets or blog
17 posts. Regardless of how you first hear about them, the offers almost
18 always contain hallmarks of “pump and dump” ploys. Specifically,
19 fraudsters lure investors with aggressive, optimistic — and potentially
20 false and misleading — statements or information designed to create
unwarranted demand for shares of a small, thinly traded company with
little or no history of financial success (the pump). Once share prices and
volumes reach a peak, the cons behind the scam sell off their shares at a
profit, leaving investors with worthless stock (the dump).

21 61. On January 13, 2014, to soften the effects of the FINRA advisory concerning the
22 risks related to investing in marijuana-related stocks, defendants Mehdizadeh and Bedrick caused
23 the Company to issue a press release entitled *Medbox Comments on FINRA Advisory Concerning*
24 *Marijuana Stocks*, which stated:

25 . . . Medbox . . . commented on FINRA’s renewed advisory
26 concerning marijuana related stocks. The advisory, released Friday,
27 highlights what investors should be aware of when investing in
28 marijuana related stocks.

The [FINRA] advisory stated, in part:

1 “We are reissuing this alert to warn investors not only about the
2 potential for fraud in this arena, but also to reiterate the risks of
3 investing in thinly traded companies about which little is known
4 One company, for example, promoted its move into the medical
5 cannabis space by issuing more than 30 press releases during the first
6 half of 2013. These releases publicized rosy financial prospects and
7 the growth potential of the medical marijuana market. The company
8 was also touted on the Internet through the use of sponsored links,
9 investment profiles and spam email, including one promotional piece
10 claiming the stock “could double its price SOON” and another
11 asserting the stock was “poised to light up the charts!” Yet the
12 company’s balance sheet showed only losses, and the company
13 stated elsewhere that it was only beginning to formulate a business
14 plan.”

15 Other excerpts from the [FINRA] advisory stated, in part: “For
16 example, the CEO of one thinly traded, yet heavily touted, company
17 that purports to be in the medical marijuana business spent nine years
18 in prison for operating one of the largest drug smuggling operations
19 in U.S. history. The former CEO of a similar company was recently
20 indicted for his role in a multimillion dollar mortgage-based Ponzi
21 scheme.”

22 Medbox executives were pleased that a stern advisory was reissued
23 about the sector’s stocks by FINRA and had the following
24 comments:

25 “Some of the public companies in the marijuana sector are in the
26 business of self-promotion with little or no substance or even an
27 executable business plan,” stated Vincent Mehdizadeh, Chief
28 Operations Officer at Medbox, Inc. “Since day 1, our company has
made its quarterly reports and financials available to the public, kept
shareholders diligently informed about the company and its operating
personnel at all times, offered ongoing support to its many clients,
completed an audit of its financials, donated substantial amounts to
industry advocacy groups that support medical marijuana patient
rights to safe access of the medicine, and also demonstrated
profitability while not deriving revenue from the cultivation or sale
of the marijuana itself. As far as I know, we are the only company in
the space to have accomplished those feats. With that being said we
have stated in the past that investors should make informed decisions
when buying our stock as the volatility may not be something the
average retail investor can stomach.”

Company executives also pointed out that most, if not all, of the
other marijuana related public companies in the sector spend the
majority of their operating budgets promoting their stocks through
assorted public/investor relations firms and as a result show

1 operating losses quarter after quarter. Medbox does not have an
2 investor relations firm and according to company executives its
3 general preference has been not to operate with one through this
4 period in the company's development until a reputable candidate is
5 identified.

6 "Much of the investor interest in Medbox has occurred through
7 financial press, financial media, and general media coverage
8 chronicling advances in the medical marijuana industry, an
9 industry in which we feel we are the most reputable company,"
10 stated Dr. Bruce Bedrick, Chief Executive Officer at Medbox, Inc.
11 "Consequently, we spent much of last year trying to find a
12 reputable firm that would be a good fit to handle our investor
13 relations consistent with best industry practices, and now feel we
14 have found the right fit for our company. We expect to announce
15 more details some time after our Form 10 registration statement is
16 filed with the SEC this week, as that is our main priority at
17 present."

18 62. On January 21, 2014, the Company filed yet another Registration Statement on
19 Form 10 with the SEC. The Form 10 includes audited financial statements for the years ended
20 December 31, 2012 and December 31, 2011. The Form 10 discloses that defendant Bedrick
21 beneficially owned 24.7% of the Company's outstanding common stock and defendant
22 Mehdizadeh beneficially owned or controlled 63.6% of the common stock. Inexplicably, the
23 compensation paid to defendants Bedrick and Mehdizadeh in 2012 were now changed. According
24 to the new Form 10, defendant Bedrick received \$34,729 total compensation in 2012 in his role as
25 CEO and a director, while defendant Mehdizadeh in his various titles received \$262,500.

26 63. The January 21, 2014 Form 10 includes the following financial statements which
27 conflict, without any explanation, with those filed previously on OTCmarkets.com. According to
28 the new Form 10: (a) as of September 30, 2013, the Company had total current assets of
\$3,338,218 (previously reported as \$3,276,992) and as of December 31, 2012, total current assets
of \$3,495,156 (previously reported as \$3,456,802); and (b) the Company's total assets were
\$7,422,866 (previously reported as \$6,464,170) and \$3,551,024 (previously reported as
\$3,512,670), for the third quarter of 2013 and full year 2012, respectively. The Form 10 discloses
the following results of operations, also conflicting with the previously-filed quarterly report and
also without explanation: (a) revenues for the quarter of \$1,980,720 (previously reported as

1 \$2,079,454); (b) revenues for the nine months ended September 30, 2013 of \$4,801,062
2 (previously reported as \$5,046,634); (c) net *loss* for the quarter of \$178,925 (previously reported
3 as net *income* of \$258,945); and (d) net *loss* for the nine months ended September 30, 2013 of
4 \$43,825 (previously reported as net *income* of \$388,284). Notably the Form 10 makes no
5 disclosure regarding a restatement of the Company's 2012 results nor does it refer to those results
6 as restated.

7 64. On February 14, 2014, the SEC issued a list of comments to Medbox regarding a
8 wide range of deficiencies in the January 21, 2014 Form 10 including: (a) incorrect pagination; (b)
9 misleading descriptions of Medbox's business and "geographic reach"; (c) failure to define key
10 terms; (d) failure to include necessary attachments; (e) inconsistent description of territories where
11 the Company served consulting clients (i.e., mentioning Oregon on one list and omitting Illinois,
12 Nevada, and Oregon on another); (f) failure to provide a basis for the disclosed belief that Medbox
13 was "positioned to be the leader in compliance and inventory control"; (g) failure to properly
14 discuss revenue recognition; (h) in some places the Company stated it sold a certain number of
15 machines during a certain quarter and in others the Company stated that it had sold the same
16 number during the entire year; (i) inexplicably recording \$190,400 in marketable securities as a
17 liability; (j) disclosures stating there were no material changes in consolidated statement of cash
18 flows during a certain period but disclosing significant changes in net cash from investing and
19 financing activities during the same period; and (k) failure to explain a substantial salary increase
20 for then-CEO Bedrick, in addition to numerous other problems. The letter also states "please
21 ensure that your disclosure [regarding defendant Mehdizadeh's criminal history] encompasses all
22 aspects of Mr. Mehdizadeh's plea, including the payment of fees in restitution."

23 65. On February 18, 2014, Citron Research released a report titled "Citron Busts
24 Medbox for Multiple Frauds – Stock Is Worthless." The Citron report points to the numerous
25 apparent contradictions within Medbox's financial statements, past public statements, and on its
26 website. The report concludes, "This is a Full On Fraud... It is not as if Medbox is a company
27 that has had a few reporting deficiencies amidst a small but growable business core. Rather,
28 everything they do seems to have an underlying purpose of deception."

66. Later that same day, defendants Mehdizadeh and Bedrick caused the Company to issue a press release in response to the Citron research report. The press release admits to past financial errors and states in part:

Medbox . . . issued a status update to its shareholders on past, present, and future projects. Company executives also commented on bloggers looking to discredit the company for financial gain and law firms looking to capitalize on misinformation in order to solicit clients.

* * *

Company executives clarified their position on the restatement of financials that accompanied the Form 10 registration statement filed with the SEC as a maturation process in becoming an SEC filer.

“The company undertook a project to bring all accounting functions in house and during that lengthy process *we discovered some errors* in accounting which we have since corrected in the latest financials included in the Form 10. The point is getting it right and being fully transparent with our shareholders at all times,” stated Vincent Mehdizadeh, Board Chairman at Medbox, Inc. “The company has, as part of those corrections, instituted better controls over financial reporting to avoid further corrections. In addition, it is important to note that revenues for the nine months of 2013 had increased over the comparative period of the prior year (as corrected) and we are continuing to add skilled people to accelerate our growth in 2014. Unfortunately, when you are the most visible company in the space, with a large market capitalization, you become a target.”

Company executives caution company shareholders that while the media has been extremely supportive of Medbox as one of the only viable medical marijuana related public companies, with success there will always be opponents that publish deceptive and misleading articles about the company and its executives.

In addition, company executives clarified that the company offers support services to the medical marijuana sector on an arm’s length basis. Often times in a state where applications are being accepted for marijuana dispensary licensing, some landlords would not lease to the newly formed non-profit entities formed for the company’s clients. As a result, in some rare instances and simply as an absolute benefit to their clients, it was agreed that Medbox would lease the properties and assign all rights to the applicant, with the permission of the landlord.

“We go the extra mile for our clients and that is evident through our glowing testimonials displayed on our websites,” stated Dr. Bruce Bedrick, CEO at Medbox, Inc. “Interestingly, with the recent banking policy guidance by the federal government, we can now start to develop an additional revenue stream of acquiring properties and leasing to our dispensary operator clients. This is one of many revenue streams that Medbox is actively developing given the current climate and relaxed federal posture.”

1 (Emphasis added.)

2 67. On March 10, 2014, defendants Mehdizadeh and Bedrick caused the Company to
3 issue a press release titled *Medbox Issues Shareholder Update – Board to Pursue Listing on Major*
4 *National Exchange During 2014*. The Company press release stated:

5 SEC reporting status, and other strategic items:

6 The Company's Form 10 registration statement filed with the SEC will be effective
7 as of March 22, 2014. The Company expects to respond to SEC comments and file
8 audited 2013 year-end financials on a Form 10-K by the end of March.

9 The board of directors is seeking to list Medbox with the NASDAQ Capital
10 Markets or another national exchange by the end of 2014.

11 The Company added public company experience with the additions of Thomas
12 Iwanski at CFO, Matt Feinstein at Vice President, and also Mitch Lowe as the
Company's first independent director.

13 * * *

14 "The last 90 days have been highly productive, and Medbox continues to lead this
15 burgeoning new industry," stated Vincent Mehdizadeh, Board Chairman at
16 Medbox, Inc. "We continue to take the steps to set Medbox apart from others in the
industry, ensuring that we have the appropriate controls and resources in place and
adding seasoned talent to lead future growth."

17 Dr. Bruce Bedrick, Medbox President and CEO, added, "With the effectiveness of
18 our Form 10 later this month, Medbox will be a fully reporting company. Our
19 pending status as a future SEC filer, as well as key additions to our management
20 team, are important steps for strengthening the legitimacy of Medbox and
increasing our ability to reach new investors and clients. We look forward to
continuing to exceed expectation in the coming months."

21
22 68. On March 26, 2014, defendants Mehdizadeh, Bedrick and Lowe caused the
23 Company to issue a press release titled *Medbox Completes SEC Filing Requirements – Company's*
24 *amended Form 10 registration statement and audited 2013 financials to be filed with SEC by*
25 *March 31, 2014*, which stated:

26 . . . Medbox . . . today announced that it has completed the requisite steps to
27 formally become a fully-reporting company as of March 24, 2014 and is now
subject to the Securities and Exchange Commission reporting requirements.

1 On March 25, 2014, Medbox filed its requisite Form 3's. The Company expects to
2 file its amended Form 10 registration statement, along with audited full-year 2013
financials, by March 31, 2014.

3 "This is a key step in our goal of listing our shares on a national exchange, and
4 further evidence of our goal to maintain the highest standards for corporate
5 governance and transparency," stated Vincent Mehdizadeh, Chairman and COO of
6 Medbox, Inc. "It is of special importance to me personally that we are one of the
7 only fully reporting public companies that has generated considerable revenues in
8 the marijuana ancillary services sector and demonstrated an executable business
plan. Our main subsidiary, Medicine Dispensing Systems, has turned a profit every
year since commencing operations in 2010. These key differences set us apart from
our competitors."

9 69. On March 31, 2014, the Company filed with the SEC an amended Form 10,
10 purporting to address the SEC's previously-described concerns. This Form 10 listed the following
11 defendants as the Company's officers and directors: (a) Bedrick, CEO and a director; (b)
12 Mehdizadeh, COO and Chairman of the Board; (c) Iwanski, CFO; (d) Feinstein, Vice President;
13 and (e) Lowe, director. This was during the transition from Board 1 to Board 2. Siegel and
14 Feinstein were appointed about one week later and defendant Mehdizadeh stepped down. In
15 particular, the Form 10 inserts approximately two additional sentences in the disclosure regarding
16 revenue recognition under the Company's critical accounting policies but contains no substantive
17 changes. This Form 10 includes the Company's audited financial statements for the year ended
18 December 31, 2013 for the first time. The Form 10 was signed by defendant Bedrick and
19 contained the report of Q Accountancy expressing the opinion that Medbox's consolidated
20 financial statements "present fairly, in all material respects, the financial position of Medbox."
21 The Form 10 was now updated to contain the following disclosure regarding the legal problems of
22 defendant Mehdizadeh:

23 During 2005-2008, Mr. Mehdizadeh was the non-attorney manager for a law firm.
24 In 2008 the supervising attorney, Thomas R. Lee [...], whom clients had retained to
25 handle their legal matters retired and left clients without representation. The
26 department of consumer affairs of Los Angeles investigated the matter and decided
27 to recommend prosecution against Mr. Mehdizadeh and not Mr. Mehdizadeh's
28 attorney employer, Mr. Lee. After a 15 count criminal complaint was filed in 2010,
in order to avoid a trial and ongoing bad publicity, Mr. Mehdizadeh pled no-contest
in 2013 to two counts related to theft that resulted in probation. Under the terms of
a negotiated plea agreement, Mr. Mehdizadeh voluntarily paid \$450,000 in
restitution to clients of Mr. Lee's office. Mr. Mehdizadeh accepted the terms of the

1 plea that provided that once Mehdizadeh's probation is complete, the record of the
2 incident be deleted. Mr. Mehdizadeh maintains his innocence and believes he was
unfairly targeted.

3 70. On April 1, 2014, defendants Mehdizadeh, Bedrick and Lowe caused the Company
4 to issue a press release titled "Medbox Generates 102% Increase in Revenue for Fiscal 2013."
5 The press release stated quotes defendant Mehdizadeh as stating "Our primary subsidiary,
6 Medicine Dispensing Systems, has been profitable each year since commencing operations in
7 2010, and remains profitable today." The press release also states in part:

8 . . . Medbox . . . today announced record full-year revenue. Medbox included its
9 audited numbers for the year ended December 31, 2013 in its amended Form 10
filing with the Securities and Exchange Commission.

10 Recent Operational highlights:

11 On March 24, 2014, the Form 10 registering Medbox's shares of common stock
12 became effective with the Securities and Exchange Commission and Medbox is
13 now a fully-reporting public company.

14 The Company added public company experience, naming Thomas Iwanski as CFO,
15 Matt Feinstein at Vice President, and also Netflix co-founder and former Redbox
president Mitch Lowe as the Company's first independent director.

16 * * *

17 "This was a productive and exciting year for Medbox, and the first 90 days of 2014
18 have been even more productive," commented Dr. Bruce Bedrick, Chief Executive
19 Officer of Medbox. "We have solidified our position as the industry leader, and in
20 the last three months we have taken specific steps to improve corporate
governance, expand transparency and deliver shareholder value. During the rest of
21 2014 we will grow organically, taking advantage of the tremendous momentum in
the industry. We will also leverage our reputation, presence in the industry, and
22 our relationships to develop new revenue streams. This will be an exciting year for
Medbox, its clients and its shareholders."

23 Full-year revenues were \$5.2 million, a 101.7% increase compared to \$2.6 million
24 last year. The increase in revenues was due to primarily the result of recognizing
revenue deferred from 2012 related to the completion of contracts for Arizona
25 customers which was delayed by court action that was not resolved until 2013.
Gross profit for 2013 was \$2.6 million, or 50.5% gross profit margin, compared to
26 gross profit of \$1.5 million, or 59.4% gross profit margin for 2012.

1 The change in gross profit margin was due to increased costs related to the build-
2 out of locations for clients and delays in implementing the Arizona program related
3 to the litigation.

4 Total selling, general and administrative expenses were \$3.2 million, or 61.2% of
5 total revenues, compared to total selling, general and administrative expenses of
6 \$1.9 million, or 72.5% of total revenues last year. The loss from operations for the
7 year was \$(560,000), compared to a loss from operations of \$(340,000) last year.
8 Net loss for the year was \$(557,000), or \$(0.02) per basic and \$(0.01) per diluted
9 share, compared to a net loss last year of \$(344,000), or \$(0.01) per basic and
10 diluted share, last year.

11 While the Company's largest operating subsidiary, Medicine Dispensing Systems,
12 remained profitable with a pretax profit of \$948,443, the net loss for 2013 included
13 \$1.2 million in losses from the parent company's operations, related primarily to
14 accounting and SEC attorney legal fees (related to the filing of, and subsequent
15 withdrawing of, a Registration Statement on Form S-1, and the filing of a Form 10
16 registration statement in order to register the common stock of Medbox) and
17 additional legal fees (related to litigation on behalf of Arizona clients to allow them
18 to move forward with dispensary licenses the state of Arizona had awarded). In
19 addition, the Company's Vaporfection subsidiary, acquired on April 1, 2013,
20 recognized a net loss of \$317,000 for nine months of operations.

21 "Our primary subsidiary, Medicine Dispensing Systems, has been profitable each
22 year since commencing operations in 2010, and remains profitable today," added
23 Vincent Mehdizadeh, Chairman and Chief Operating Officer of Medbox, Inc.
24 "However, public company costs, expenses related to financing efforts, and legal
25 fees related to Arizona litigation resulted in a net loss for the public company. We
26 do not expect these expenses to impact our 2014 results, however, we are growing
27 our infrastructure in anticipation of future growth, and expect additional fees
28 related to public company costs as the Company pursues a listing on a national
exchange."

29 Fourth Quarter Financial Results

30 Revenues for the fourth quarter ending December 31, 2013 increased to \$423,000
31 compared to \$47,250 for the same period of 2012. The increase in revenues was
32 due to an increased number of contracts signed and initial nonrefundable consulting
33 fees. Gross profit for the quarter was \$278,000, or 65.7% gross profit margin,
34 compared to a negative gross profit of \$(508,000), or (10.8%) negative gross profit
35 margin, in the fourth quarter of 2012. This was partially due to deferral of some
36 revenue for Arizona contracts from 2012 to 2013 because of Arizona licensing
37 stoppages by their authorities.

38 Total selling, general and administrative expenses significantly increased by
\$657,007 in the fourth quarter of 2013 compared to the same period of 2012, this is
due to the fact that the Company incurred higher general and administrative
expenses related to raising capital and regulatory compliance as described above.

1 Net loss for the fourth quarter of 2013 was \$(513,000) or \$(0.02) per basic and
 2 \$(0.01) per diluted share, compared to a net loss of \$(533,000) or \$(0.02) per basic
 3 and \$(0.01) per diluted share for the fourth quarter of 2012.

4 71. On April 11, 2014, the Company filed a Form 8-K disclosing that defendant
 5 Feinstein and Siegel had been elected to the Medbox Board of Directors on April 9, 2014. The
 6 Form 8-K also disclosed that on April 10, 2014, defendant Mehdizadeh resigned as COO and
 7 director and was appointed "Senior Strategist and Founder of the Company."

8 72. On April 11, 2014, the SEC issued a list of comments to Medbox regarding a wide
 9 range of deficiencies that remained uncorrected in the March 31, 2014 amended Form 10. For
 10 example the SEC noted that again the Company had failed to file a document with the correct
 11 pagination. The SEC "continue[d] to note inconsistencies between the description of [the]
 12 business in the registration statement and on the company's website." The SEC requested, again,
 13 more complete disclosures regarding Medbox's revenue. The SEC stated the Company had failed
 14 to sufficiently address its previous request to disclose its consideration of why Medbox
 15 "determined not to state separately its net sales and cost of sales of tangible products and its net
 16 sales and cost of sales for services." The SEC also directed the Company to include specific
 17 language in a more complete disclosure of defendant Mehdizadeh's past criminal charges and
 18 plea:

19 [R]evise your disclosure to state that Mr. Mehdizadeh pleaded "no contest to two
 20 counts of felony grand theft and admitted a special allegation of engaging in a
 21 pattern of related felony conduct involving takings in excess of \$100,000" and that
 22 he was ordered to pay back \$450,000 in restitution. We refer you to the Los
 23 Angeles County District Attorney's Office June 21, 2013 press release. Please tell
 24 us whether Mr. Mehdizadeh has already paid the \$450,000 and if not, please revise
 25 the disclosure accordingly. Also, *please remove the last sentence beginning with*
 26 *"Mr. Mehdizadeh maintains his innocence . . ."*

27 (Emphasis added.)

28 73. On April 15, 2014, in response to criticism from the SEC included in the April 11,
 2014 letter, the Company amended the Form 8-K it had filed April 11, 2014.

74. On May 13, 2014, the Company filed yet another amended Form 10 purporting to
 address the SEC's concerns expressed in the February 14, 2014 and April 11, 2014 letters. As of
 the filing of this May 13, 2014 Form 10, the Company had never publicly disclosed the existence
 CONSOLIDATED SHAREHOLDER DERIVATIVE COMPLAINT FOR BREACH OF FIDUCIARY DUTY AND
 ABUSE OF CONTROL

1 of an Audit Committee or, if one existed, who its members were. Nor was the existence of an
2 Audit Committee mentioned in this Form 10. The May 13, 2014 Form 10 states the following in
3 part:

4 We currently have seven full time employees. We also use the services of 12
5 independent contractors.

6 These independent contractors perform the services of accounting/bookkeeping
7 support, machine maintenance, software support, marketing assistance, and also
8 project manager duties in various localities nationwide. In addition, most of our
9 sales force is on independent contractor arrangements. We currently have three
10 independent contractors that constitute our sales force, including one who serves as
11 sales manager, our newly appointed Vice President Matt Feinstein, and two sales
12 agents. The Vice President receives a monthly base salary of \$8,000 and the sales
agents receive a monthly base salary of \$1,000. In addition, we pay commissions
of approximately 5% on technology and consulting sales, which commissions are
split between the Vice President and the sales agent that was assigned as the
contact for the client. We expect that Mr. Feinstein will become an employee of
Medbox during the third quarter of 2014.

13 75. On May 15, 2014, the Company filed its first Form 10-Q with the SEC for the
14 quarter ended March 31, 2014. Attached as exhibits to the 10-Q were the Sarbanes-Oxley
15 certifications of defendants Iwanaski and Bedrick.

16 76. Also on May 15, 2014, defendants Mehdizadeh, Bedrick, Lowe and Siegel caused
17 the Company to issue a press release announcing its first quarter results reported in the Form 10-
18 Q. The press release stated:

19 “We continued to establish the company as the leader in the rapidly growing
20 legitimate marijuana industry while increasing our transparency to the investment
21 community and position in the capital markets,” commented Dr. Bruce Bedrick,
22 Chief Executive Officer of Medbox. “As this industry continues to evolve and
23 redefine itself, Medbox is strategically positioned as the partner of choice with a
24 growing array of solutions, technologies and services.”

25 Dr. Bedrick continued, “Across the country, states and municipalities evolve
26 regulations regarding medical and recreational marijuana, and often struggle with
27 the best ways to manage this change and address reasonable concerns. The results
28 we are reporting today are somewhat overshadowed by accounting provisions
necessitated by changes in the business and legal environment in one of the markets
in which we operate. Medbox stands at the forefront of this industry, offering
solutions that help dispensary operators and cultivators maintain compliance and
records that exceed regulatory requirements.”

1 77. On May 16, 2014, the SEC issued a report warning of “possible scams involving
2 marijuana-related investments[,]” quoting Elisha Frank, co-chair of the SEC Enforcement
3 Division’s Microcap Fraud Task Force as stating “[w]henver we see incomplete or misleading
4 disclosures, we act quickly to protect investors.”

5 78. On May 27, 2014, the SEC issued a letter to the Company describing deficiencies
6 in the May 13, 2014 Form 10 and the May 15, 2014 Form 10-Q. In particular, the SEC asked the
7 Company for the third time to clarify its revenue recognition disclosures and stated the following:

8 We note the allowances and refunds recorded in the first quarter due to a reduction
9 in the number of licenses in the San Diego market *reversing \$962,780 of previously*
10 *recognized revenue....* Please provide us with a detailed explanation of your basis
11 for previously recognizing this revenue, including the specific milestones
12 previously reached that made recognition of the revenue on the affected contracts
13 appropriate. Also, please clarify your ongoing revenue recognition policy in terms
14 of when it is appropriate to recognize revenue prior to obtain a license.

15 * * *

16 We note you have identified general and administrative expenses in the amount of
17 \$235,193 and \$263,197 for the periods ended March 31, 2014 and 2013 as “Not
18 explained.” *Given the significance of these amounts to your financial statements,*
19 *please expand your disclosure to include the reasons why you cannot explain what*
20 *the expenses relate to and why the amount for the first quarter of 2014 decreased*
21 *from the first quarter of 2013.*

22 (Emphasis added.)

23 79. On June 10, 2014, the Company filed a Form 8-K disclosing a pair of transactions
24 with PVMI, an entity controlled by defendant Mehdizadeh. The first transaction is referred to in
25 the Form 8-K as the “Bio Tech PSA” and is described as follows:

26 Pursuant to the Bio Tech PSA, the Company sold to PVMI the Company’s rights
27 and claims attributable to or controlled by the Company as a result of the
28 Company’s transactions with Bio Tech Medical Software, Inc. (the “Bio Tech
Rights and Claims”), in exchange for the return by PVMI to the Company of
30,000 shares of the Company’s common stock. The amount of consideration paid
by PVMI was determined based on the book value of the Bio Tech Rights and
Claims and the closing price of the Company’s common stock on June 5, 2014.”

The second transaction is referred to in the Form 8-K as the “Medvend PSA” and is described as
follows:

1 Pursuant to the Medvend PSA, the Company sold to PVMI the Company's rights
2 and claims attributable to or controlled by the Company as a result of the
3 Company's transactions with those three certain stockholders of Medvend, Inc.
4 known as Kaplan, Tartaglia and Kovan (the "Medvend Rights and Claims"), in
5 exchange for the return by PVMI to the Company of 30,000 shares of the
6 Company's common stock. The amount of consideration paid by PVMI was
7 determined based on the book value of the Medvend Rights and Claims and the
8 closing price of the Company's common stock on June 5, 2014.

6 Attached to the Form 8-K are the purchase and sale agreements for both transactions. Both PSA's
7 state they were approved unanimously by Mebdox's then-Board, Board 2, on June 4, 2014 and are
8 signed by defendant Feinstein on behalf of Medbox and defendant Mehdizadeh on behalf of
9 PVMI.

10 80. On June 5, 2014, Medbox shares closed at \$20.16 per share.

11 81. On July 1, 2014, Medbox issued a press release titled "Medbox Becomes a Fully
12 Reporting Public Company – Company's Form 10 deemed effective by SEC," which states that
13 Medbox "today announced that the Company's Form 10 filing has been deemed effective by the
14 Securities and Exchange Commission, with no outstanding comments left to address."

15 82. On July 24, 2014, the Company announced that defendant Bedrick was stepping
16 down as the Company's President and CEO and that defendant Marsala would take his place. The
17 Company also announced that defendant Marsala had been appointed to the Board and
18 subsequently elected to serve as its Chairman. Following his resignation as President and CEO of
19 the Company, in August 2014, defendant Bedrick also stepped down from Medbox's Board.
20 Defendant Bedrick, however, remained with the Company as a "consultant."

21 83. On July 29, 2014, the Company filed a Form 8-K disclosing that Marsala was
22 appointed as a director and CEO on July 23, 2014, and that defendant Bedrick had resigned as
23 President and CEO. Board 3 was now in place. The filing also discloses that defendant Marsala's
24 salary as CEO would be \$330,000.

25 84. According to the complaint subsequently filed by the Demand Board against
26 defendant Medizadeh (detailed herein), in August 2014, the Company and defendant Mehdizadeh
27 learned that the DOJ had served grand jury subpoenas on Q Accountancy, Medbox's then-
28 accountant, and a CPA named Alex Anguiano. The subpoenas sought "all documents related to

1 financial transactions involving Medbox.” The service of these subpoenas and the existence of the
2 grand jury investigation were not disclosed to Medbox’s public shareholders.

3 85. On August 14, 2014, the Company filed its Form 10-Q for the quarter ended June
4 30, 2014. The Form 10-Q was signed by Marsala and defendant Iwanski.

5 86. On August 15, 2014, defendants Mehdizadeh, Lowe, Siegel and Marsala caused the
6 Company to issue a press release entitled *Medbox Files 10-Q and Announces Quarterly*
7 *Conference Call*. The Form 10-Q Medbox filed with the SEC that day for the financial period
8 ended June 30, 2014 was signed by Defendant Marsala and reported that the Company had
9 achieved revenues of \$434,448 and a net loss of \$1.4 million in 2Q 2014. The Form 10-Q states
10 that “[r]evenue was down for the current period as delays in adoption of final regulations in certain
11 states and the ultimate timing of the application process in states with final regulations reduced
12 and delayed the opportunity to apply for new licenses and consequently delayed the notice of the
13 results of any license application made.” The Form 10-Q also states that “revenue was further
14 reduced by additional sales allowances and refunds recorded due to a legislative change in the San
15 Diego market area which reduced the ability of certain clients to obtain licenses and triggered
16 certain contract refunds.”

17 87. On August 22, 2014, the Company filed a Form 8-K disclosing that defendant
18 Bedrick had resigned as a director on August 18, 2014 but would continue to serve as a consultant
19 to Medbox and would earn a monthly fee of \$12,500 in that capacity.

20 88. On August 27, 2014, the Company uploaded to the investor relations portion of its
21 website a charter for the Audit Committee of the Board, purportedly adopted August 6, 2014. The
22 charter states that the Audit Committee “shall be made up of at least three members of the Board
23 who meet the independence and other requirements of the Securities and Exchange Commission.”
24 At this time, the composition of the Audit Committee was not disclosed and there were not three
25 independent directors on Medbox’s Board to form the Committee.

26 89. On October 17, 2014, the Company filed a Form 8-K disclosing that as of October
27 13, defendant Mehdizadeh had resigned as an officer of Medbox but would continue to serve as a
28 consultant to the Company, with the title of “Founder and Senior Advisor,” and would earn

1 \$25,000 in that capacity per month, or \$300,000 per year – effectively the same amount as the
 2 Company was paying its CEO, defendant Marsala.

3 90. On October 21, 2014, the Company filed a Form 8-K disclosing that defendant
 4 Iwanski had resigned as CFO and defendant Mitchell would serve as the new CFO. The Company
 5 agreed to pay defendant Iwanski severance and issued him 100,000 Restricted Stock Units “for his
 6 service to the Company.”

7 91. On October 27, 2014, the Board appointed a special committee consisting of
 8 defendants Lowe, Siegel, Love, and Marsala – the entire Medbox Board. The special committee
 9 was to investigate whether evidence of wrongdoing existed as to: (a) the documents sought by the
 10 grand jury and the subpoenas served on the Company’s accountants; or (b) the allegations in a
 11 letter to the SEC from a former employee of Medbox including allegations of insider trading and
 12 other securities fraud against Mehdizadeh. The formation of the special committee and the
 13 allegations in the letter to the SEC were not immediately disclosed.

14 92. On October 28, 2014, the Company filed a Form 8-K with the SEC disclosing that
 15 Love had been elected to the Board on October 22, 2014. The Form 8-K for the first time
 16 disclosed in an SEC filing the existence of an Audit Committee of the Board of Medbox when it
 17 stated Love “was also elected to serve as Chairperson of the Audit Committee.” If any other
 18 director served on the Audit Committee it was not disclosed.

19 93. On October 31, 2014, the Company filed a Form 8-K with the SEC disclosing that
 20 defendant Feinstein had resigned as a director of the Company on October 30, 2014 but would
 21 remain employed as a vice president of Medbox. The Demand Board was now fully in place.

22 THE TRUTH BEGINS TO EMERGE

23 94. Also on October 31, 2014, the Company filed a Form 8-K with the SEC disclosing:

24 On October 27, 2014, the Board of Directors of Medbox, Inc. (the “Company”) appointed a special board committee, composed of all four of its current directors, that is, three independent directors and its recently appointed Chief Executive Officer/Chairman of the Board, to investigate (i) *a letter from a former Company employee to the Securities and Exchange Commission alleging wrongdoing by a former officer of the Company who is currently a consultant to the Company*, and (ii) *a federal grand jury document subpoena served in August 2014 on the Company’s accountants by the U.S. Department of Justice, to ascertain what*

1 *implications, if any, the subpoena or the letter may have with respect to the*
2 *Company.*

3 (Emphasis added.)

4 95. At some time during November 2014, Medbox and various former directors and
5 officers of the Company, including Mehdizadeh, received subpoenas from the SEC. The SEC
6 subpoenas sought documents and testimony related to the Company's revenue recognition
7 policies, financial disclosures, private placements of stock, and third parties who had invested in
8 or otherwise engaged in financial transactions with Medbox.

9 96. On November 3, 2014, a press release was issued by defendant Mehdizadeh titled
10 "Medbox Comments on Recent 8-K Filing." The press release, which appeared neither in a
11 Medbox SEC filing nor on the Company's investor relations page, states in part:

12 LOS ANGELES, Nov. 3, 2014 /PRNewswire/ -- *Medbox, Inc.*, (OTCQB: MDBX),
13 the leading licensing, infrastructure and security specialist, patented technology
14 provider, and partner to the cannabis industry, commented on the recent 8-K filing
15 discussing matters pertaining to a former employee of the company who filed an
16 employment claim and sent a letter to certain government agencies asserting claims
17 against the Company. *The former employee subsequently lost the employment*
18 *claim.* However, the Company is now internally investigating the letter's contents to
19 ascertain validity of the claims.

20 The 8-K references that the Board of Directors of Medbox, Inc. appointed a special
21 board committee to investigate, review, and evaluate a letter involving the
22 Company, sent in May 2014 to certain government agencies by a former employee
23 of Medbox. *Within the last few weeks, Medbox was awarded a judgment against*
24 *this employee* on his employment claims, which demanded \$1.5 million in damages
25 related to the Company's alleged wrongdoing. Prior to litigation of the employment
26 claim, and after repeated settlement demands were made by the former employee
27 and rebuffed by Medbox, the employment claim was filed and sent along with a
28 letter to government agencies by the former employee, alleging wrongdoing by the
29 company.

30 Mr. Vincent Mehdizadeh, Founder and Consultant to Medbox stated, "The former
31 employee vowed to retaliate against the Company in any way he could after his
32 illegal cash demands of the company were ignored. It now appears that writing a
33 letter to government agencies filled with factual inaccuracies and blatant falsehoods
34 was the most effective way to facilitate that goal."

35 Current management commented that the Company has not found any indications
36 that the subject matter contained in the letter is true concerning the conduct of prior
37 officers of the company. However, the company's internal investigation on the
38 matter is still in process. *The Company also clarified that no subpoenas have been*

1 served on the Company, it's current or former officers, or anyone affiliated to the
2 Company.

3 Mr. Mehdizadeh added, "I painstakingly put together the best management team
4 and Board of Directors in our sector for a reason, and in their judgment this
5 voluntary disclosure is what good public companies that have nothing to hide
6 should do. The company will continue to demonstrate to shareholders, the
investment community, and all other public company participants in the cannabis
sector, how a well-run and respectable public company should operate. Medbox has
and will continue to be the gold-standard for accountability."

7 (Emphasis added.) No judgment against a former employee, or any litigation involving one, had
8 been disclosed in the Company's public filings.

9 97. On November 4, 2014, *TheStreet.com* published an article titled "Medbox Says Ex-
10 employee Wrote Letter to SEC, Accountants Subpoenaed," which states in part:

11 While Medbox did not identify the former officer who is the subject of the letter to
12 the SEC, the company's own filings show that three officers resigned this year and
13 stayed on as consultants.

14 Mehdizadeh resigned as COO and director in April, but was then appointed as a
15 senior strategist. He resigned again last month, retaining a relationship as a
consultant.

16 Bruce Bedrick resigned as CEO in July and resigned from the board in August,
17 remaining as a consultant.

18 CFO Thomas Iwanski resigned last month, but agreed to stay on as a consultant.

19 98. On November 6, 2014, defendant Mehdizadeh issued a press release, this time
20 under his own name, stating "Online Publication Retracts Headline Implying Medbox is Under
21 Investigation." The press release states in part:

22 LOS ANGELES, CA / ACCESSWIRE / November 6, 2014 / P. Vincent
23 Mehdizadeh - Founder and Majority shareholder of Medbox, Inc. (OTCQB:
24 MDBX) commented today that online publications, thestreet.com and thedeal.com
retracted a headline that *incorrectly asserted that Medbox is under investigation by
the SEC.*

25 "I am personally relieved that the headline and key pieces of the article were
26 corrected," commented Mehdizadeh. "However, the damage to investor confidence
27 yesterday was substantial and I am meeting with my legal team to discuss possible
28 remedies available to make an example out of this online publication and to ensure
incorrect information is never disclosed about the company again."

1 (Emphasis added.)

2 99. On November 7, 2014, the Company filed a Form 8-K with the SEC stating:

3 The news release issued Monday, November 3, 2014 under the headline “Medbox
4 Comments on Recent 8-K Filing” *was not authorized by Medbox, Inc.* (the
5 “Company”) for distribution. The 8-K filed by the Company on Friday, October
6 31, 2014, should be used as a reference for information regarding this matter. The
7 filing is available on the website of the Securities and Exchange Commission.

8 (Emphasis added.)

9 The SEC Investigation

10 100. On November 12, 2014, the Company filed its Form 10-Q with the SEC for the
11 quarter ended September 30, 2014. The Form 10-Q reiterates that, contrary to the statements in
12 the November 3, 2014 press release, the SEC had issued a subpoena to the Company. The Form
13 10-Q states in part:

14 On November 10, 2014, the Los Angeles Regional Office of the Securities and
15 Exchange Commission (the “SEC”) notified the Company that *it is conducting an*
16 *investigation pertaining to the Company and issued a subpoena to the Company for*
17 *documents from December 1, 2011 to the present* relating to the matters it is
18 reviewing. The Company plans to cooperate fully with the SEC staff to complete
19 the investigation on a timely basis.

20 (Emphasis added.)

21 101. On December 2, 2014, the Demand Board informed defendant Mehdizadeh that its
22 members believed Medbox had incorrectly recognized revenue under his leadership. Mehdizadeh
23 responded by threatening to remove the Board.

24 102. On December 4, 2014, defendant Mehdizadeh threatened to remove the entire
25 Board via written consent and then informed the Company’s directors and officers they were
26 “terminated as officers of any and all Medbox companies, with cause, effective immediately.”
27 Mehdizadeh thereafter agreed to withdraw his termination demand.

28 103. On December 12, 2014, Mehdizadeh again threatened to fire Medbox management.

104. On December 22, 2014, the Company filed a Form 8-K with the SEC disclosing:
“On December 16, 2014, the Board of Directors of Medbox, Inc. (the “Company”) amended the
Company’s Amended and Restated Bylaws to prohibit action by written consent without a

1 meeting of the stockholders of the Company.” This modification of the Company’s bylaws could
2 only have been target at the actions of one individual: defendant Mehdizadeh, the Company’s
3 majority shareholder and the only person able to take any action by written consent.

4 The Restatement

5 105. On December 30, 2014, the Company filed a Form 8-K with the SEC disclosing,
6 among other things, that the Company had been served with a subpoena for the federal grand jury
7 and that Medbox would be required to restate its financial statements for the full year 2013 and the
8 first three quarters of 2014. The Form 8-K also disclosed that “[o]n December 22, 2014, the
9 Board of Directors of the Company amended the Company’s Amended and Restated Bylaws to
10 permit action by written consent without a meeting of the stockholders of the Company,
11 effectively rescinding the amendment entered into on December 16, 2014.” The reason for this
12 abrupt reversal, and what Mehdizadeh promised the Demand Board in return, has not been
13 disclosed. The Form 8-K also states in part:

14 On December 24, 2014, the Board of Directors of the Company determined to
15 *amend and restate the financial statements of the Company for the year ended*
16 *December 31, 2013, the third and fourth quarters of 2013 and the first three*
quarters of 2014.

17 In October 2014 the Board of Directors of the Company appointed a special board
18 committee (the “Special Committee”) to investigate a federal grand jury subpoena
19 pertaining to the Company which was served upon the Company’s accountants as
20 well as certain alleged wrongdoing raised by a former employee of the Company.
21 *Thereafter the Company received subpoenas from the federal grand jury and the*
22 *Securities and Exchange Commission.* In connection with its investigation of these
23 matters, the Special Committee in conjunction with the Audit Committee initiated
24 an internal review by management and by an outside professional advisor of certain
25 prior period financial reporting of the Company. The outside professional advisor
26 reviewed the Company’s revenue recognition methodology for certain contracts for
27 the third and fourth quarters of 2013. As a result of certain errors discovered in
28 connection with the review by management and its professional advisor, the Audit
Committee, upon management’s recommendation, concluded on December 24,
2014 that the consolidated financial statements for the year ended December 31,
2013 and for the third and fourth quarters therein, as well as for the quarters ended
March 31, 2014, June 30, 2014 and September 30, 2014, together with all three, six
and nine month financial information contained therein, should no longer be relied
upon and will be restated to correct the errors. Therefore, all earnings press releases
and similar prior communications issued by the Company as well as other prior
statements made by or on behalf of the Company relating to financial reporting or
results for those periods should not be relied upon. Lastly, as part of the

1 investigation process, *the Company will also examine its financial statements for*
2 *2012 and the first two quarters of 2013 and if necessary correct those as well.*

3 The errors which led to the announced restatements relate to revenue recognition on
4 some contracts with customers as to which it appears that *revenue had been*
5 *recognized too soon. The company intends to correct the errors in its financial*
6 *statements to bring them into conformity with accounting principles generally*
7 *accepted in the United States of America (GAAP) and SEC regulations.* The
8 restated financial statements will recognize revenue at a later time as up-front
9 payments are recognized over the longer of the contract period or the customer
10 relationship, revenue is deferred until key contingencies are removed and it is clear
11 the revenue has been earned in accordance with GAAP and SEC regulations. The
12 Company's internal review, including a review of the practices and procedures that
13 led to the errors, preparation of fourth quarter and full year 2014 financial
14 statements and restatement of prior periods are not yet concluded, and the actual
15 impact of the revenue recognition corrections and other adjustments that may arise
16 from the ongoing internal review of the Company's prior and future financial
17 results *may vary materially.*

18 As a result of the preliminary findings of the ongoing internal review, management
19 is continuing to assess the Company's disclosure controls and procedures and
20 internal controls over financial reporting. The Company does not expect to reach a
21 final conclusion as to this assessment until completion of the restatement process.
22 Since management has not completed its assessment of its disclosure controls and
23 procedures, including internal control over financial reporting, there can be no
24 assurance that additional control deficiencies that could be material weaknesses
25 will not be identified. The Company has previously disclosed that its disclosure
26 controls and procedures and internal controls over financial reporting were not
27 effective.

28 The Chief Financial Officer of the Company discussed these matters with the
Company's independent registered public accounting firm, Q Accountancy
Corporation.

* * *

Guy Marsala, the Chief Executive Officer of the Company and a member of the
Special Committee, has determined to resign from the Special Committee, effective
as of December 16, 2014, in order for the members of the Special Committee to
consist exclusively of outside independent directors.

(Emphasis added.)

106. On the same day, the Company issued a press release covering the subject matter of
the Form 8-K. The press release states that the Company "plans to engage an independent CPA
firm to consult with and assist the Company's staff in preparing the restated financial statements
as soon as possible."

1 107. Also on December 30, 2014, defendant Mehdizadeh issued a letter to Medbox
2 shareholders. In the letter, defendant Mehdizadeh stated in his view no independent CPA was
3 necessary and doubled-down on his failed accounting and that of former-CFO Iwanski and the Q
4 Accountancy auditor. The letter states in part:

5 “Up until 3 months ago, *I was involved in almost every decision the company*
6 *made....* In my opinion, one of the keys to Medbox's success has been superior
7 corporate messaging and timely dissemination of information to our shareholders.

8 Since that point in time a little over two years ago, I have made it my mission to
9 take the company from being a non-reporting pinksheet to being a fully reporting
10 SEC Filer. I took it upon myself to set these goals and achieve them for the benefit
11 of the company and its shareholders. We did this to have an increased level of
12 transparency so that investors can think of Medbox as the public company standard
13 for respectability and reliability in the newly emerging marijuana industry that was
14 taking shape. As a result, we engaged a Public Company Accounting and Oversight
15 Board (PCAOB) registered auditor, Q Accountancy Corporation, and also hired a
16 full-time Chief Financial Officer, Thomas Iwanski, a CPA with excellent references
17 and extensive public company experience.

18 Since the company engaged Mr. Iwanski and Q Accountancy Corporation, I also
19 recruited a star-studded board and together we appointed Guy Marsala to lead the
20 company as the Chief Executive Officer. As it was explained to me, in situations
21 where a new CEO is brought on, they typically look to appoint their own Chief
22 Financial Officer. Thus, when Mr. Marsala decided to replace Mr. Iwanski as CFO,
23 I did not give it a second thought, although I was sad to see him go since his
24 experience with public company oversight was superb.

25 Today, the company's current management issued a statement regarding the
26 company's financials. *Prior management, including Mr. Iwanski and the company's*
27 *current auditor, both disagree with current management's position on the matter.*
28 *Both the current auditor and prior CFO have made their opinions known to current*
management, to no avail. Both have stated that they had support for recognizing
revenue in the periods in which they were recognized. However, the company's
current CFO has a difference of opinion on that aspect and believes that the revenue
in question should be recognized in later periods, which has now resulted in a
proposed restatement set to occur. *This fact along with the fact that the revenue*
items in dispute amount to less than 10% of the total revenue booked for 2013, was
not accurately discussed in the disclosure released this morning.

(Emphasis added.)

108. According to a court filing later made by the Company, this press release was
“false and/or misleading” in that it misleadingly minimized the extent of accounting problems.

109. On December 31, 2014, the Company filed a Form 8-K with the SEC disclosing that on December 17, 2014, the Company appointed Siegel as the Chairman of the Board. The accompanying press release states:

Mr. Guy Marsala, Medbox CEO, commented, "Over the course of this year, Medbox has evolved from an entrepreneurial firm to a professionally managed organization with a world class management team and Board of Directors."

110. On January 9, 2015, the Company filed a notice of action by written consent of stockholders. The form disclosed that defendant Mehdizadeh had used his power to act by written consent without a meeting to remove *the entire Board* and install directors loyal to him. Pursuant to the written consent, effective January 29, 2015, Medbox's Board of Directors would become: defendants Feinstein, Ortega, Trecek, and Mehdizadeh. The disclosure states in part:

This Information Statement... is being furnished to the holders ("Stockholders") of the class of Common Stock, par value \$0.001 per share ("Common Stock"), and Preferred Stock, \$0.001 par value, of Medbox, Inc., a Nevada corporation ("Company"), by Mr. P. Vincent Mehdizadeh who is the beneficial owner of a majority of the voting power of the Company ("Majority Stockholder"). Mr. Mehdizadeh is the president and controlling shareholder of both PVM International, Inc., a California corporation ("PVMI") and Vincent Chase, Inc.,⁶ a California corporation ("VCI").

The purpose of the Information Statement is to provide notice that, on January 9, 2015 ("Consent Date"), the Majority Stockholder, PVMI and VCI executed a written consent ("Consent Action"), as permitted under Nevada law and the Amended and Restated Bylaws of the Company, as further amended ("Bylaws"), approving the election of four (4) successor directors as the Company's entire board of directors to serve until the next annual meeting of stockholders and until their successors are elected and qualified. After the effective time of the Consent Action, the board of directors and the Majority Stockholder may decide to add additional directors, including persons who formerly served as officers or directors of the Company.

111. On January 16, 2015, the Company filed a complaint in Los Angeles Superior Court disputing the legal effectiveness of the January 9, 2015 written consent. According to the Company's complaint, the Demand Board has discovered "significant" evidence related to Mehdizadeh's conduct while employed in various capacities at Medbox. The complaint states that Mehdizadeh: (a) engaged in manipulation of Medbox's revenue recognition and other financial

⁶ Vincent Chance, Inc. ("VCI") is an entity wholly owned by defendant Mehdizadeh.
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disclosures; (b) made public statements related to Medbox that contained false and/or misleading information; (c) potentially violated numerous securities laws; (d) engaged in what appear to be improper transactions involving third-party affiliates; (e) made material misrepresentations to Medbox investors and/or potential investors; and (f) ignored and/or attempted to hide significant accounting and other financial control and oversight issues existing at Medbox.

112. On January 21, 2015, the Company, defendant Mehdizadeh, and Mehdizadeh's wholly owned entities, PVMI and VCI, entered an agreement to resolve the action filed on January 16. Pursuant to the agreement: (a) Mehdizadeh and his entities canceled and withdrew the written consent; (b) the Company and Mehdizadeh and his entities agreed to vote in favor of and not remove defendants Siegel, Lowe, Love, and Marsala for a period of 12 months; (c) Medbox would dismiss its complaint; (d) the Board would meet with defendant Mehdizadeh on specified dates to discuss matters of interest or concern to defendant Mehdizadeh "as a stockholder of the Company"; (e) Mehdizadeh would have the right to appoint a person nominated by him to be a fifth member of Medbox's Board; and (f) Mehdizadeh and his entities would, on or before January 25, 2015, obtain a \$1 million investment in Company stock via a private placement. Notably, however, the Demand Board did not pursue financial damages against defendant Mehdizadeh. The agreement additionally stated:

Consulting Arrangements and Contact with Staff. VM confirms that all prior consulting agreements or similar arrangements between him and Medbox or any of its subsidiaries have been terminated,⁷ and that for a period commencing on the date of this Agreement and terminating upon the end of the Voting Agreement Term, *VM will not (i) seek or purport to act on behalf of Medbox or any subsidiary as a consultant, agent, or otherwise or (ii) except as authorized by the Board or this Agreement, contact or interfere with any Medbox employees, consultants, directors or shareholders, whether on or off Medbox's premises and whether in person, by mail, email, Edgar filings, the internet, press releases, other form of public announcements, or in any other manner.* Notwithstanding this Section, VM Group shall be permitted to have a supervised visit at Medbox's headquarters where they can gather personal belongings and make copies of files for the purpose of compiling a financial summary prepared by an accounting firm to disclose to Medbox and Medbox's financial consulting firm for assistance with its investigation of the 2012, 2013 and 2014 financial statements. VM Group will also

⁷ "VM" means defendant Mehdizadeh.

1 be allowed to provide to Medbox an operations summary to assist current
2 management in running the business.

3 * * *

4 **Board Consultations with VM.** During the Voting Agreement Term, Medbox
5 shall cause one or more of its directors, initially Siegel, to meet and confer in good
6 faith with VM not less infrequently than semi-monthly (or on a different frequency
7 as mutually agreed by Medbox and VM) to hear and discuss any matters of interest
8 or concern of VM, as a shareholder of Medbox. These matters shall initially
9 include, but are not limited to (i) adequacy of Medbox's staffing, (ii)
10 implementation of new consulting arrangements related to executed amendments to
11 client consulting agreements previously agreed to by Medbox but not yet tendered
12 to clients as promised, to ensure client satisfaction and (iii) Medbox's completion
13 of its evaluation, through Singer Lewak, of its prior period financial reporting

14 113. Concurrently, the Demand Board, the Company, defendant Mehdizadeh, PVMI, and
15 VCI entered a voting agreement. Pursuant to the voting agreement, defendants Mehdizadeh,
16 Siegel, Low, Love, Marsala, PVMI, and VCI agreed to vote their Medbox shares to: (a) maintain
17 the Board as five members; and (b) elect defendants Siegel, Lowe, Love, and Marsala. The
18 agreement likewise prevents any of the parties to it from taking "any action to remove" defendants
19 Siegel, Lowe, Love, or Marsala

20 114. At present, Medbox is the subject of an SEC investigation and the Company and/or
21 one or some of the defendants named herein are implicated in the DOJ grand jury investigation.
22 As securities class action was filed against the Company, in the U.S. District Court for the Central
23 District of California, also on January 21, 2015, Case No. 2:15-cv-00426, naming defendants
24 Mehdizadeh, Bedrick, Iwanski, Marsala, and Mitchell. Medbox common stock, which was
25 trading above \$30 per in share in April 2013 is currently trading at approximately \$0.06 per share.

26 115. On February 6, 2015, the Company issued a Form 8-K disclosing that the Board
27 had appointed a new independent Auditor, Marcum LLP, and "effectively dismissed" Q
28 Accountancy, "other than with regard to any restatement of the Company's financial statements
for periods prior to the fiscal year ending December 31, 2014." Attached as an exhibit to the Form
8-K was a letter from Q Accountancy stating in part:

We have read the statements made by Medbox Inc., which we understand will be
filed with the Securities and Exchange Commission, pursuant to Item 4.01 of Form
8-K, as part of the Form 8-K of Medbox, Inc. dated February 5, 2015. We agree

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1 with the statements concerning our Firm in such Form 8-K. However, on December
2 30, 2014, Medbox, Inc. filed with the Securities and Exchange Commission a Form
3 8-K that included certain matters pursuant to Item 4.02 regarding revenue
4 recognition methodology for certain contracts. As of February 5, 2015, we have not
5 reviewed or performed any additional procedures on the outcome of those matters.
6 We have no basis to agree or disagree with any other statements made under Item
7 4.01.

8 116. On March 4, 2015, defendant Mehdizadeh disclosed that he had agreed to sell the
9 majority of Medbox shares under his control to Lizada Capital LLC for approximately \$15
10 million.

11 117. On March 9, 2015, the Company filed a Form 8-K describing the results of its
12 financial review. The Form 8-K stated in part:

13 As a result of certain errors described below, discovered in connection with such
14 comprehensive review, the Audit Committee, upon management's
15 recommendation, concluded on March 6, 2015 that, in addition to the restatements
16 announced in the Original 8-K, the consolidated financial statements for the year
17 ended December 31, 2012, together with all three, six and nine month financial
18 information contained therein, and the quarterly information for the first two
19 quarters of the 2013 fiscal year, should no longer be relied upon and will be restated
20 to correct the errors. Therefore, all earnings press releases and similar prior
21 communications issued by the Company as well as other prior statements made by
22 or on behalf of the Company relating to financial reporting or results for those
23 periods should not be relied upon.

24 Management and its professional advisor have completed the review of revenues
25 recognized and related contracts for the years 2012 and 2013 and interim period for
26 the nine months ended September 30, 2014. Conclusions thus far from the review
27 include:

28 1) revenue on some contracts with customers was recognized before all required
revenue recognition criteria were met, resulting in an overstatement of revenue in
ranges of approximately \$1,300,000 to \$1,500,000, \$3,000,000 to \$3,200,000 and
\$600,000 to \$900,000 for the years 2012, 2013 and the nine months ended
September 30, 2014, respectively;

2) certain transactions with related parties in ranges of approximately \$500,000 to
\$600,000 and \$800,000 to \$900,000, for 2012 and 2013, respectively were
improperly recorded as revenue instead of additional paid in capital in stockholders'
equity; and,

3) certain inventory costs were capitalized improperly resulting in an
understatement of cost of sales. Costs of approximately \$600,000 and in a range of
approximately \$1,300,000 to \$1,400,000, for 2013 and the nine months ended

1 September 30, 2014, respectively previously reported in inventory in 2013 and
2 2014, respectively, will be recorded as cost of sales in the statement of operations
3 for 2013 and the nine months ended September 30, 2014, respectively. These costs
4 incurred prior to executing a contract with a customer, seeking licenses and
locations and closing on real estate to operate a dispensary or cultivation center
should have been recorded as current period expense.

5 118. On March 10, 2015, plaintiff Calabrese filed his verified shareholder derivative
6 complaint in this Court.

7 119. On March 11, 2015, the Company filed an amended Form 10 containing its restated
8 financial results.

9 120. On March 26, 2015, the Company filed with the SEC its Form 10-K for the 2014
10 fiscal year. The Form 10-K reported that during 2014, the Company's legal costs had increased
11 \$1.02 million in 2014 as compared to 2013.

12 121. On March 27, 2015, plaintiff Gray filed his verified shareholder derivative
13 complaint in this Court.

14 122. On May 15, 2015, the Company filed with the SEC its Form 10-Q for the first
15 quarter of 2015. The Form 10-Q disclosed that during the first quarter of 2015, the Company's
16 legal costs had increased from \$74,960 during the first quarter of 2014 to \$259,993 during the
17 same quarter of 2015.

18 123. On July 7, 2015, the Company disclosed that on June 30, 2015 defendant Marsala
19 had resigned and would be replaced as President and interim CEO by Jeffrey Goh, previously the
20 COO of Medbox since April 22, 2015.

21 124. To date, the Company has not been compensated for the significant financial harm
22 caused by defendant Mehdizadeh's wrongdoing or the breaches of fiduciary duties of the Demand
23 Board members, nor have the necessary corporate governance enhancements been made.

24
25 **ADDITIONAL EVIDENCE DEFENDANTS BREACHED THEIR FIDUCIARY DUTIES**

26 125. As detailed herein, defendants breached their fiduciary duties by completely
27 misrepresenting Medbox's financial condition and business, declining to implement even the most
28 basic and rudimentary of internal controls over Medbox's financial disclosure and accounting,

1 concealing a federal grand jury investigation implicating Medbox so they could sell their company
2 stock before it crashed, concealing defendant Mehdizadeh's criminal past and ongoing criminal
3 activities at Medbox, and, declining to sue and hold accountable the wrongdoers, including
4 themselves and their fellow board members even though they were on actual notice of *all* of this
5 wrongdoing.

6 126. In addition to all to their breaches of fiduciary duties in connection with all of the
7 wrongdoing alleged above, defendants additionally breached their fiduciary duties in connection
8 with the foregoing:

9 A. Defendants Actively Concealed Mehdizadeh's Continued Control of Medbox's Operations

10 127. At times relevant hereto, the other defendants were well aware of Mehdizadeh's
11 sordid history and crimes of moral turpitude, and actively participated in the concealment from
12 Medbox shareholders of both Mehdizadeh's history and his active participation in the Company's
13 day-to-day business.

14 128. According to a confidential witness ("CW") in the related securities fraud case,⁸
15 who worked for Medbox in 2014 and reported directly to defendant Feinstein, defendant Marsala's
16 appointment as CEO by the Board was devised as an artifice to falsely convey that defendant
17 Mehdizadeh was not in control of the company. According to CW, there were discussions about
18 defendant Mehdizadeh's title and his title was changed several times to decrease the appearance of
19 his involvement in the day to day business of, and control over, the company. According to CW,
20 defendant Feinstein stated Mehdizadah did not have an official title with the Company because of
21 his shady history and because the defendants wanted shareholders not to know that Mehdizadah
22 was still in control.

23 129. CW's account is confirmed by Medbox's public filings. For example, on April 11,
24 2014, defendants caused Medbox to file a Form 8-K with the SEC stating that defendant
25 Mehdizadeh had resigned as COO and a director, and now had the title of "Senior Strategist and
26 Founder." The Form 8-K did not disclose the responsibilities associated with this new title.

27
28 ⁸ Crystal v. Medbox Inc., et al, Case No. 2:15-cv-00426-BRO-JEM, pending in the United States District Court for the Central District of California.

1 However, as evidenced by later disclosures, this was at least an officer level position. On October
2 17, 2014, the Company disclosed that defendant Mehdizadeh had resigned as an officer but would
3 continue to serve as “Founder and Senior Advisor.”

4 130. This charade notwithstanding, defendant Mehdizadeh remained in control of
5 Medbox as its largest shareholder and maintained operational control over the Board and the
6 Company’s day-to-day business. For example, according to CW, all applications for approval to
7 do business and sell dispensing machines in a given state were reviewed and approved by
8 defendant Mehdizadeh. CW described defendant Mehdizadeh’s fraudulent conduct in connection
9 to this process: for example, application fees for a particular state were \$500,000 and each
10 application also required proof of an additional \$500,000 as a security deposit in the event the
11 application was approved. CW stated the Company did not have sufficient funds for the security
12 deposits. In order to circumvent this problem, defendant Mehdizadeh would deposit funds,
13 receive the deposit slip, and then withdraw the money to be used for other applications in order to
14 give the appearance to state authorities that Medbox had funds that it did not in fact have.

15 131. Defendant Mehdizadeh at times misrepresented his involvement in the Company’s
16 business by telling investors that he had no financial interest in the dispensaries that Medbox
17 supposedly serviced. “I have no financial interest in any of these dispensaries other than making
18 sure that the clients that we have been hired to represent obtain licensing.” However, this was a
19 lie. According to an article on *SouthCoastToday.com*, “In various Phase 1 application filings with
20 the Department of Public Health – which is overseeing medical marijuana in Massachusetts –
21 Mehdizadeh wrote in a form letter that he has ‘over \$62 million in available assets, and pledges \$1
22 million for setting up dispensaries.’” Additionally, two license applicants in Massachusetts “listed
23 Mehdizadeh’s company Vincent Chase LLC as their financier ...”

24 132. Defendants, and the members of the Demand Board, knew of these practices and
25 permitted them to occur. This resulted in the obfuscation of defendant Mehdizadeh’s true depth of
26 involvement in Medbox’s day-to-day activities, as well as his illegal and improper business
27 practices.

28 B. Defendants Caused Medbox To Improperly Recognize Revenue

1 133. In late 2012, Medbox obtained 20 dispensary licenses for clients in Arizona. The
2 Individual Defendants made a practice of improperly recognizing revenue before it was actually
3 earned on these contracts. This practice violated Generally Accepted Accounting Principles and
4 various SEC regulations.

5 C. Defendants Permitted And Engaged In Rampant Insider Trading

6 134. The individual defendants, including defendants Mehdizadeh, Bedrick, Lowe, and
7 Siegel, sold more than \$2.5 million worth of their personally held Medbox stock at times when
8 they were in possession of undisclosed negative material information.

9 135. As demonstrated below, nearly all of the stock sales made by Defendants
10 Mehdizadeh, Bedrick, Lowe, and Siegel occurred while those individuals knewt the DOJ had
11 served grand jury subpoenas on Medbox's accountants and before this had been disclosed to
12 Medbox's shareholders.

13 136. Defendant Medhizadeh executed the following stocks sales at times he was in
14 possession of undisclosed negative information about Medbox:

15 a. In June 2014, defendant Medhizadeh caused PVMI to make his first ever
16 publicly reported sales of Medbox stock: 69,585 shares for proceeds of approximately \$500,000.

17 b. Including the June sales, between June 2014 and December 29, 2014,
18 defendant Mehdizadeh and entities he controlled sold over 171,000 shares of Medbox stock in 85
19 separate transactions for proceeds of over \$1.43 million. These sales occurred at a time when,
20 according to the complaint filed against Mehdizadeh and subsequently settled by the Demand
21 Board, Mehdizadeh knew the DOJ had served grand jury subpoenas on Q Accountancy in
22 connection with Medbox's financial wrongdoing.

23 137. Defendant Bedrick executed the following stocks sales at times he was in
24 possession of undisclosed negative information about Medbox:

1 a. Between September 2, 2014 and October 24, 2014, defendant Bedrick sold
2 approximately 17,490 shares of Medbox stock at prices between \$8.00 and \$11.30 per share for
3 total proceeds of approximately \$170,780. These sales were defendant Bedrick's first ever
4 publicly reported sales of Medbox stock and they were all executed at times when defendant
5 Bedrick, due to his membership of Medbox's Board, knew of the DOJ subpoenas. Moreover, all
6 of these sales occurred before the existence of the DOJ subpoenas was publicly disclosed. The
7 proceeds of these improper insider sales were greater than defendant Bedrick's salary for 2014.

9 138. Defendant Lowe executed the following stocks sales at times he was in possession
10 of undisclosed negative information about Medbox:

11 a. Between September 2014 and October 31, 2014, defendant Lowe sold
12 26,900 shares of Medbox stock for proceeds of approximately \$270,000 at artificially inflated
13 prices between \$8.20 and \$14.00 per share. These sales were Lowe's first ever publicly reported
14 sales of Medbox stock. At the time of these sales, as a member of the Board, defendant Lowe
15 knew of the DOJ subpoena, which had not been publicly disclosed.

17 b. Defendant Lowe's stock sales between November 2014 and December 2014
18 of 16,000 shares of Medbox stock for proceeds over \$155,000, occurred at times when he was a
19 member of the Special Committee investigating the wrongdoing at issue in the DOJ and SEC
20 investigations. As alleged in the Board's January 2015 complaint against Mehdizadeh, the Special
21 Committee did in fact uncover evidence of accounting manipulation and other wrongdoing. This
22 had not been disclosed when defendant Lowe executed the stock sales.

24 139. Defendant Siegel executed the following stocks sales at times he was in possession
25 of undisclosed negative information about Medbox.

26 a. Between September 2014 and October 31, 2014, defendant Siegel sold
27 30,000 shares of Medbox stock at artificially inflated prices between \$8.20 and \$14.00 per share
28

1 for total proceeds of over \$301,000. At the time of the sales, defendant Siegel was aware of the
2 DOJ subpoena which had not been disclosed publicly. These were defendant Siegel's first ever
3 publicly reported sales of Medbox stock.

4 b. Defendant Siegel's stock sales between November 2014 and December
5 2014 of 16,000 shares of Medbox stock for proceeds over \$155,000, occurred at a time when he
6 was a member of the Special Committee investigating the wrongdoing at issue in the DOJ and
7 SEC investigations. As alleged in the Board's January 2015 complaint against Mehdizadeh, the
8 Special Committee did in fact uncover evidence of accounting manipulation and other
9 wrongdoing. This had not been disclosed when defendant Lowe executed the stock sales

11 **DAMAGES TO THE COMPANY**

12 140. Medbox has been, and will continue to be, severely damaged and injured by
13 defendants' misconduct. As a direct and proximate result of the defendants' conduct, Medbox has
14 been seriously harmed and will continue to be. Such harm includes, but is not limited to:

- 15 a. a decreased ability to obtain financing to sustain continued operations at a
16 loss;
 - 17 b. costs incurred in compensation and benefits paid to defendants that
18 breached their duties to the Company;
 - 19 c. costs incurred in incentive and/or bonus compensation paid to employees
20 based on artificially inflated test accession numbers;
 - 21 d. substantial loss of market capital;
 - 22 e. costs already incurred and to be incurred defending against the pending
23 securities class action;
 - 24 f. costs already incurred defending government investigations, subpoenas, and
25 suits; and
 - 26 g. any fines that are a result of the Company's violations federal and state law.
- 27
28

1 141. In addition, Medbox's business, goodwill, and reputation with its business partners,
2 regulators, and shareholders have been gravely impaired. The Company has still not fully
3 admitted the nature of its false statements and the true condition of its business. The credibility
4 and motives of management are now in serious doubt.

5 142. The actions complained of herein have irreparably damaged Medbox's corporate
6 image and goodwill. For at least the foreseeable future, Medbox will suffer from what is known
7 as the "liar's discount," a term applied to the stocks of companies who have been implicated in
8 illegal behavior and have misled the investing public, such that Medbox's ability to raise equity
9 capital or debt on favorable terms in the future is now impaired.

10 **DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS**

11 143. Plaintiffs bring this action derivatively in the right and for the benefit of Medbox to
12 redress injuries suffered, and to be suffered, by Medbox as a direct result of breaches of fiduciary
13 duty by the individual defendants. Medbox is named as a nominal defendant solely in a derivative
14 capacity. This is not a collusive action to confer jurisdiction on this Court that it would not
15 otherwise have.

16 144. The Demand Board of Medbox consists of the following four defendants: Siegel,
17 Lowe, Marsala, and Love. Plaintiffs have not made any demand on the Board to institute this
18 action because a pre-suit demand on the Demand Board would have been futile, and therefore,
19 excused. This is because the Demand Board members were appointed unilaterally by defendant
20 Mehdizadeh and have failed to hold him accountable in the face of his serious wrongdoing.
21 Thus, demand on the Board was futile, and therefore excused.

22 145. Demand is excused as to the Demand Board because it has failed to convene a
23 functioning, properly composed Audit Committee. The Audit Committee charter requires that the
24 Committee be comprised of *three* independent directors. However, in violation of the charter, the
25 Medbox Audit Committee is, and was, comprised of only two: defendants Siegel and Love.
26 Because Medbox is beset by accounting problems and has disseminated numerous obviously false
27 and/or misleading financial statements, the Company is in desperate need of a functioning Audit
28

1 Committee. However, the Demand Board declined to constitute a properly constituted Audit
2 Committee. As a result, demand is excused as to the entire Demand Board.

3 **Demand Is Excused Because A Majority Of The Demand Board Faces A Substantial**
4 **Likelihood Of Liability Based Upon Their Actions**

5 **Defendant Marsala Is Not Independent**

6 146. Defendant Marsala was incapable of considering a demand to take action in an
7 independent and disinterested manner because he is employed fulltime as Medbox's CEO. As a
8 result, he was reliant on the good will of his other Board members to maintain his primary
9 employment.

10 147. Further, during the third quarter of 2014, defendant Marsala received 20,000 shares
11 from defendant Mehdizadeh out of his personal holdings to compensate defendant Marsala for his
12 performance. On October 24, 2014, the Compensation Committee of the Board recommended
13 that shares be returned to the founder and issued by the Company as part of the yearly RSU grant.
14 In November 2014, defendant Marsala returned 20,000 shares to defendant Mehdizadeh and
15 20,000 additional shares were approved to increase defendant Marsala's first year RSU grant from
16 50,000 RSU's to 70,000 RSU's.

17 148. Due to the foregoing, defendant Marsala lacked independence from his fellow
18 board members and was beholden to defendant Mehdizadeh. As a result, defendant Marsala could
19 not independently and disinterestedly consider a demand for action and demand is excused as to
20 him.

21 **Defendants Siegel, Lowe, and Marsala Are Beholden To Defendant Mehdizadeh**

22 149. Defendants Siegel, Lowe, and Love are beholden to Defendant Mehdizadeh as a
23 result of entering into the January 21, 2015 Settlement Agreement and entrenching themselves in
24 their current positions for a year starting from January 21, 2015. As a result, defendants Siegel,
25 Lowe, and Love could not disinterestedly and independently consider a demand for action against
26 defendant Mehdizadeh and, as a result, demand is excused as to them.

Audit Committee Defendants Love And Siegel Breached Their Fiduciary Duties

150. Defendants Love and Siegel are the members of the Audit Committee of Medbox. In this capacity, they have responsibility for overseeing the adequacy of the Company's internal controls over financial disclosure, and reviewing its financial statements and press releases. However, even though these defendants *know* the Company has issued misleading financial statements in the recent past and *know* that Medbox's internal controls have failed to prevent accounting manipulation, they have disclosed no specific action to strengthen Medbox's internal controls or taken action against Mehdizadeh and/or Bedrick to recoup financial damages for the harm suffered by the Company. Moreover, defendants Love and Siegel operated the Audit Committee knowing that it was not properly composed and functioning, and declined to properly compose it and require it to function properly. As a result, demand is excused as to defendants Siegel and Love due to their breaches of fiduciary duties as Audit Committee members.

Compensation Committee and Governance and Nominating Committee Defendants Siegel and Lowe Breached Their Fiduciary Duties

151. Defendants Siegel and Lowe are the members of the Compensation Committee and the Governance and Nominating Committee. Both of these defendants serve not only on the Demand Board, but also were members of Boards 2 and 3. Because both Siegel and Lowe have served on Medbox's Board since approximately April of 2014, they have long been aware of the serious accounting and disclosure problems at Medbox. Nevertheless, they approved excessive and indefensible salaries for defendant Mehdizadeh in their capacities as Compensation Committee members – even though they knew him to be engaged in wrongdoing, as was evident from conflicting financial statements, the DOJ and SEC investigations, and his issuance of misleading press releases. Moreover, in their capacities as Governance and Nominating Committee members, defendants Siegel and Lowe failed to conduct adequate evaluations of the Company's corporate governance processes and failed to institute functioning corporate governance policies even though they knew the Company was in desperate need of them. As a result, demand is excused as to defendants Siegel and Lowe due to their breaches of fiduciary

1 duties in their capacities as members of the Compensation Committee and Governance and
2 Nominating Committee.

3 **Prior-Serving Defendants Marsala, Siegel, and Lowe Breached Their Fiduciary Duties**

4 152. Defendants Marsala, Siegel and Lowe, a majority of the Demand Board, were on
5 the Board in August 2014 when they were alerted to the DOJ grand jury investigation of
6 Medbox's financial transactions. However, these three defendants failed to *take any action at all*
7 to investigate or disclose same for three months. They did, however, approve excessive
8 compensation for defendants Bedrick and Mehdizadeh in August and October of 2014,
9 respectively, even though they knew the DOJ investigation implicated Mehdizadeh and they knew
10 that the Company's financial statements from the time defendant Bedrick was CEO had been
11 misleading. Likewise, defendants Marsala, Siegel, and Lowe failed to convene an Audit
12 Committee at all until October 2014, let alone a properly comprised one, which still does not exist,
13 even though they were aware of the allegations regarding the Company's financial statements, the
14 DOJ grand jury investigation, and the SEC whistleblower complaint. As a result, demand is
15 excused as to defendants Marsala, Siegel, and Lowe.

16 **Insider Selling Defendants**

17 153. Defendants Siegel and Lowe, half of the Demand Board, sold hundreds of
18 thousands of dollars of Medbox stock at times when they were in possession of undisclosed
19 materially negative information about the Company. These two defendants both executed
20 numerous sales, as detailed above, between August and the end of October 2014, when they knew,
21 but Medbox's shareholders did not, of the DOJ grand jury investigation of the Company's
22 financial statements. Additionally, these defendants executed numerous sales of Medbox stock
23 between October and the end of December 2014, when they knew the specifics of Mehdizadeh's
24 wrongdoing and the Company's deficient controls but the Company's shareholders did not. As a
25 result, demand is excused as to these directors because they face a substantial likelihood of
26 liability in connection with these breaches of fiduciary duties.

The Entire Demand Board Breached Its Fiduciary Duties

154. Defendants Marsala, Siegel, Lowe, and Love have admitted in Court filings that they are aware of pervasive and serious wrongdoing by defendant Mehdizadeh. However, they have not sought money damages against him or publicly disclosed any meaningful corporate governance enhancements at Medbox. In fact, the Demand Board agreed to resolve its suit against defendant Mehdizadeh in return for his promise to let them remain entrenched and immune from challenge as directors. By their failure to take appropriate action against defendant Mehdizadeh, the entire Demand Board has breached its fiduciary duties and demand is excused as to each member.

155. As particularized herein, to properly prosecute this lawsuit, the Demand Board members would have to sue themselves and the other defendants, requiring them to expose themselves and their comrades to tens of millions of dollars in civil liability and/or sanctions. This they have refused to do thus far, and will not do in the future. A majority of the Demand Board members are exposed to potential liability for breaching their fiduciary duties by consciously or recklessly declining to institute functioning internal controls even though they knew or were reckless in not knowing that the Company's internal controls were seriously deficient and accounting chicanery was rampant. Thus, demand on the Director Defendants is futile.

COUNT I**Breach of Fiduciary Duty**

156. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

157. Each defendant owes and owed to the Company the duty to exercise candor, good faith, and loyalty in the management and administration of Medbox's business and affairs, particularly with respect to maintaining compliance with applicable laws and regulations in core areas of the Company's business, as well as controls over disclosure.

1 B. Declaring that the defendants have breached and/or aided and abetted the breach of
2 their fiduciary duties to Medbox;

3 C. Determining and awarding to Medbox the damages sustained by it as a result of the
4 violations set forth above from each of the defendants, jointly and severally, together with interest
5 thereon;

6 D. Directing Medbox and the defendants to take all necessary actions to reform and
7 improve its corporate governance and internal procedures to comply with applicable laws and to
8 protect Medbox and its shareholders from a repeat of the damaging events described herein,
9 including, but not limited to, putting forward for shareholder vote the following resolutions for
10 amendments to the Company's By-Laws or Articles of Incorporation; and the following actions as
11 may be necessary to ensure proper Corporate Governance Policies:

12 1. A proposal to strengthen the Board's supervision of operations and develop
13 and implement procedures for greater shareholder input into the policies and guidelines of
14 the Board;

15 2. A provision to permit the shareholders of Medbox to nominate at least three
16 candidates for election to the Board;

17 3. A proposal to ensure the establishment of effective oversight of compliance
18 with applicable laws, rules, and regulations;

19 E. Determining and awarding to Medbox exemplary damages in an amount necessary
20 to punish defendants and to make an example of defendants to the community according to proof
21 at trial;

22 F. Awarding Medbox restitution from defendants, and each of them;

23 G. Awarding Plaintiff the costs and disbursements of this action, including reasonable
24 attorneys' and experts' fees, costs, and expenses; and

25 H. Granting such other and further equitable relief as this Court may deem just and
26 proper.

1 Dated: August 25, 2015

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2 /s/ Matthew L. Sharp

3 Matthew L. Sharp

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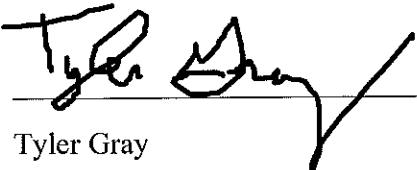
I, Robert J. Calabrese, declare that I have reviewed the Verified Consolidated Shareholder Derivative Complaint ("Complaint") prepared on behalf of Medbox, Inc. and authorize its filing. I have reviewed the allegations made in the Verified Consolidated Shareholder Derivative Complaint, and to those allegations of which I have personal knowledge, I believe those allegations to be true. As to those allegations of which I do not have personal knowledge, I rely on my counsel and their investigation and for that reason believe them to be true. I further declare that I am a current holder, and have been a holder, of Medbox, Inc. common stock at all relevant times.

Robert J. Calabrese
ROBERT J. CALABRESE

MEDBOX, INC. VERIFICATION

I, Tyler Gray, hereby verify that I am familiar with the allegations in the Consolidated Complaint, and that I have authorized the filing of the Consolidated Complaint, and that the foregoing is true and correct to the best of my knowledge, information, and belief.

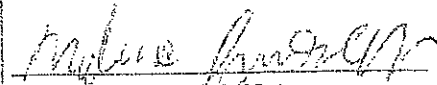
Date: 8/25/2015


Tyler Gray

VERIFICATION

I, Giuseppe Modica, declare that I have reviewed the Verified Consolidated Shareholder Derivative Complaint ("Complaint") prepared on behalf of Medbox, Inc. and authorize its filing. I have reviewed the allegations made in the Verified Consolidated Shareholder Derivative Complaint, and to those allegations of which I have personal knowledge, I believe those allegations to be true. As to those allegations of which I do not have personal knowledge, I rely on my counsel and their investigation and for that reason believe them to be true. I further declare that I am a current holder, and have been a holder, of Medbox, Inc. common stock at all relevant times.

Date: August 25, 2015


GIUSEPPE MODICA